UNITED
NATIONS

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Economic and Social Council

Distr.
GENERAL

E/1996/50
30 April 1996

ORIGINAL: ENGLISH

Substantive session of 1996
New York, 24 June-26 July 1996
Item 7 of the provisional agenda*

REGIONAL COOPERATION IN THE ECONOMIC, SOCIAL AND RELATED FIELDS

Summary of economic and social developments in the ESCWA region, 1995

EXECUTIVE SUMMARY

Economic and social developments in the region covered by the Economic and Social Commission for Western Asia (ESCWA) in 1995 were affected by several major factors, including the following: (a) the rise in oil prices in international markets, (b) the surge in non-oil exports in several ESCWA member countries, (c) notable increases in tourism revenues, (d) some progress in the Middle East peace process, (e) the launching of the World Trade Organization, (f) the continuation of the United Nations economic sanctions against Iraq and (g) the application of prudent monetary and fiscal policies in most ESCWA member countries, as well as (h) the implementation of economic reform in most countries of the region.

The rise in oil prices led to increases in oil revenues in all of the 10 oil-exporting ESCWA member countries, and this, in turn, had positive effects on their respective balances of trade and government budgets. Oil revenues of the ESCWA oil-exporting countries, which fell by 5 per cent in 1994, rebounded in 1995 and are estimated to have grown by 9.3 per cent to US$ 78.4 billion (up from US$ 71.8 billion in 1994) (see table). Most of this increase, however, is attributed to the 8.7 per cent upward adjustment in oil prices.

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The ESCWA region's gross domestic product (GDP), excluding Iraq, is estimated to have registered a growth rate of 2.8 per cent in 1995, compared with a meagre 0.8 per cent growth rate in 1994. Owing to the region's relatively high population growth rate, per capita GDP was stagnant in 1995. The region's economy needs to grow at higher rates in order to register positive per capita growth rates and to be able to accommodate the rising number of new entrants into the labour force each year.

Economic growth and performance differed among ESCWA member countries. In the Gulf Cooperation Council (GCC) countries, the highest GDP growth was registered by Oman (4.5 per cent) and the lowest by Qatar (1 per cent). Meanwhile, among the more diversified economies, Lebanon had the highest GDP growth rate (7 per cent), while Yemen had the lowest growth rate (0.5 per cent) in 1995.

Owing to prudent monetary and fiscal policies pursued by most ESCWA members, inflation rates continued to decline in most economies of the region. However, inflation rates in 1995 remained extremely high in Yemen (45 per cent) and the West Bank and Gaza Strip (25 per cent), while Iraq continued to suffer from hyper-inflation.

High unemployment rates continued to be a severe problem confronting most of the more diversified economies, particularly those of Yemen and the West Bank and Gaza Strip, where unemployment rates are estimated at 30 per cent. The unemployment rates in Egypt and Jordan remained high in 1995 at about 15 per cent. Both countries, in implementing economic reform, have been restraining government expenditures in the past few years. The Governments of Egypt and Jordan are implementing macroeconomic policies that encourage the private sector to absorb the large number of new entrants into the labour force, the annual figure for which in Egypt is estimated at about 500,000. The Syrian Arab Republic also suffers from high unemployment, but at rates lower than those in Egypt and Jordan. Although all GCC countries are labour-receiving, unemployment is rising among the indigenous population in some of these countries.

Exports of goods in the ESCWA region increased by approximately 8.4 per cent during 1995, while imports rose by around 9.2 per cent. The increase in exports was mainly due to the upward adjustment in international oil prices which favourably influenced the value of the region's oil exports. In addition, non-oil exports of the more diversified economies also increased considerably, particularly those of Lebanon, Jordan and Egypt. A surplus in the region's overall balance of trade was registered in 1995 owing to the surplus recorded by the GCC countries, which outweighed the negative combined balance of the more diversified economies of the region. Current account balances generally improved in 1995, with notable progress made by Saudi Arabia which recorded an estimated decrease in its deficit to US$ 5 billion in 1995 from almost US$ 9.1 billion in 1994. Large outflows of remittances from the GCC countries remain a problem for that group of countries, though the inflow of remittances mitigates the balance of trade deficit recorded by the more diversified economies of the region.

The external debt of the countries in the ESCWA region, excluding Iraq, remained in 1995 at almost the same level as in 1994, namely, at about US$ 180 billion. The decline in the external debt of a number of ESCWA member countries, such as Jordan, Kuwait and Saudi Arabia, was by and large negated by the increase in the external debt of other ESCWA member countries, such as Egypt, Lebanon and Yemen.

Economic reform and structural adjustment programmes - adopted to correct internal and external imbalances, as well as to enhance efficiency and productivity, which are particularly essential in a rapidly globalizing world economy - continued to be implemented in most countries in the ESCWA region in 1995. The trend of moving away from an inward-looking economic development strategy, which depended primarily on government involvement in the economy, towards and outward-looking development strategy, which depends on a leading role being taken by the private sector, is becoming more apparent. Privatization of public enterprises is taking place, though at a very slow pace, in several ESCWA member countries. New investment and tax laws have been formulated to encourage private investment, both by local and by foreign investors. Nevertheless, private foreign investment in the region remained very modest compared with that in other developing regions.

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I. OVERALL ECONOMIC PERFORMANCE

1. Overall economic performance in the region covered by the Economic and Social Commission for Western Asia (ESCWA) improved in 1995. The gross domestic product (GDP) of the region, excluding Iraq, is estimated to have registered a growth rate of 2.8 per cent in 1995 in real terms, compared with a meagre growth rate of 0.8 per cent in 1994 (see table). In 1995, the economy of the region benefited from the firming up of oil prices and the rewards of implementing economic and structural reforms during the past several years in a number of ESCWA member countries. However, the continuation of the United Nations economic sanctions against Iraq and the low level of regional economic cooperation have restrained further growth and development in Western Asia. Owing to the region's relatively high population growth rate, per capita GDP was stagnant in 1995, after registering a negative 1.8 per cent growth rate in the previous year. The region's economy should grow at higher rates in order to register positive per capita growth rates and to be able to accommodate the rising number of new entrants into the labour force each year.

2. The GDP of the countries of the Gulf Cooperation Council (GCC) (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) is estimated to have registered a 2.0 per cent growth rate in 1995 compared with a negative 0.5 per cent growth rate in the preceding year. This turnaround may be attributed mainly to the growth in the oil sector which, despite diversification efforts during the past decade, contributes over one third of GDP of the GCC countries, more than 80 per cent of government revenues, and more than 90 per cent of those countries' exports. The growth in the oil sector more than compensated for declines in some other sectors that were adversely affected by reductions in government expenditures, which had been undertaken to reduce budget deficits. Per capita GDP in the GCC countries is estimated to have declined by 1.0 per cent in 1995, after declining by 3.2 per cent in the previous year. In 1995, GDP growth rates varied among the GCC countries, ranging from 4.5 per cent in Oman to 1.0 per cent in Qatar.

3. Bahrain's GDP is estimated to have increased by an estimated 2.7 per cent in 1995, compared with 2.0 per cent in 1994. Bahrain's economy, the most diversified among the GCC countries, was stimulated by the growth of the oil sector, which is estimated to have registered a 9.0 per cent growth in nominal terms. The non-oil sectors were relatively sluggish in 1995, owing to restrained government expenditures, and are estimated to have registered only modest growth. However, the banking sector, which traditionally has a strong link with developments in the oil sector, recorded a relatively good performance. The performance of the tourism sector, which is encouraged by the Government to increase its contribution to GDP and employment, was not as good as anticipated. Lastly, the depressed international prices of aluminium limited the contribution of the manufacturing sector.

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Socio-economic indicators for the ESCWA region, 1993-1995

	1993	1994	1995 a/
Gross domestic product (GDP) at constant 1992 prices (billions of US dollars) b/	276.7	278.9	286.7
GDP growth rate (percentage) b/	2.7	0.8	2.8
Population in the ESCWA region (millions) b/	112.3	115.3	118.4
Population growth rate (percentage) b/	2.46	2.67	2.68
Per capita GDP (US dollars) b/	2 463	2 418	2 419
External debt (billions of US dollars) b/	186	182	180
Debt service payment (billions of US dollars)	24	30	29
External debt/GDP (percentage) b/	67	65	63
Exports (billions of US dollars) b/	97.2	101.3	109.8
Imports (billions of US dollars) b/	86.3	85.5	93.4
Balance of trade (billions of US dollars) b/	10.9	15.8	16.4
Current account balance (billions of US dollars) c/	(15.1)	(7.1)	..
International reserves (billions of US dollars) d/	43.8	45.7	50
International reserves/import ratio (months) d/	6.5	6.4	7.0
Crude oil production (millions of barrels per day)	15.46	15.75	15.89
Crude oil revenues (billions of US dollars)	75.52	71.77	78.44
Proved oil reserves (billions of barrels)	573.4	568.5	570
Proved oil reserves/total world oil reserves (percentage)	57.4	56.9	57
Proved oil reserves/production (years)	101.3	98.8	98.2
Natural gas reserves/total world (percentage)	17.3	17.5	17.8

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	1993	1994	1995 a/
Agricultural imports (billions of US dollars)	14.3	14.4	16.2
Agricultural exports (billions of US dollars)	2.6	2.9	3.5
Agricultural trade balance (billions of US dollars)	(11.7)	(11.5)	(12.7)
Crude birth rate (per 1,000)	..	31.3	30.1
Life expectancy at birth (years)	..	65.58	65.58

Source: Economic and Social Commission for Western Asia, based on national and international sources.

Note: Parentheses ( ) denote a deficit or negative. Two dots (..) indicate that data are incomplete or not available.

a/ Preliminary estimates.

b/ Excluding Iraq.

c/ Excluding Iraq, Lebanon, Qatar, the United Arab Emirates and Yemen.

d/ Excluding Iraq, the Syrian Arab Republic and Yemen.

4. Kuwait's GDP is estimated to have registered a 2.9 per cent growth rate in 1995, after recording a negative 0.4 per cent rate in 1994. This turnaround is mainly due to growth in the oil sector. The private sector, heavily dependent on government expenditures, has not yet assumed the greater role in economic development and growth that the Government envisaged. The belt-tightening of fiscal policies and the completion of major construction projects limited higher growth in 1995.

5. Oman's economy registered the highest growth among GCC countries in both 1994 and 1995, recording growth rates of 3.5 per cent and 4.5 per cent respectively. This may be attributed to the fact that Oman is at the forefront of economic reform among the GCC countries. It was the first GCC country to remove the terms for national partnership that had scared off foreign investment and previously blocked attempts to engage in joint ventures with major industrialized countries. In addition, the Omani economy was helped by higher oil production and prices in 1995.

6. Qatar's GDP, which registered a negative growth of 1.5 per cent in 1994, is estimated to have recorded a positive growth rate of 1.0 per cent in 1995. Qatar's economy benefited from higher oil prices and production in 1995. Nevertheless, economic growth in Qatar may be expected to remain sluggish until 1998, when major liquefied natural gas projects currently under construction

start production and thereby provide a significant boost to the economy and counter the pattern of decline in the country's oilfields.

7. Despite significant fiscal austerity measures, Saudi Arabia's economy, by far the largest in the ESCWA region, performed well in 1995, turning a negative GDP growth rate of 1.1 per cent in 1994 into an estimated positive GDP growth rate of 1.7 per cent. Consumption was constrained by the reduction in subsidies of public goods and services and the higher costs of imports from major European countries and Japan, owing to the weakening of the United States dollar to which the Saudi Arabian riyal (SRls) is pegged, and to significant cut-backs in government expenditures which have a direct and indirect impact on the activities of the private sector. The growth of the oil sector, which accounts for over one third of the kingdom's GDP and over 90 per cent of its exports, was the main factor in boosting the economy and reducing the country's internal and external imbalances. However, the outflow of workers' remittances continued to affect the country's current account. Workers' remittances transferred out of Saudi Arabia are estimated to have increased from US$ 15.2 billion in 1994 to US$ 17.2 billion in 1995, and totalled US$ 100.3 billion for the period 1990-1995.

8. The United Arab Emirates is estimated to have witnessed a real GDP growth rate of 1.3 per cent in 1995, compared with only a meagre 0.1 per cent growth rate in the previous year. (However, the country's nominal GDP in 1995 is estimated to have registered a growth rate of 6.5 per cent.) This improvement was mainly due to the growth in the oil sector, coupled with the good performance of the construction and trade sectors.

9. The region's more diversified economies (these include Egypt, Iraq, Jordan, Lebanon, the Syrian Arab Republic, Yemen, and the West Bank and the Gaza Strip), with the exception of Iraq, continued to perform well in 1995, registering an estimated GDP growth rate of 5.2 per cent, after having achieved a 4.3 per cent growth rate in the previous year. Despite a high population growth rate, per capita GDP in the more diversified economies increased by 2.3 per cent in 1995, compared with a growth rate of 1.7 per cent in 1994. Factors contributing to this good performance include the rejuvenation of the private sector in a number of countries implementing economic reform and liberalization, as illustrated by the surge of non-oil exports; the improved conditions for private investment, both domestic and foreign; the considerable increases in tourism; the continuation of large inflows of transferred workers' remittances; and a declining debt-servicing burden, as well as the 8.7 per cent rise in oil prices in 1995. Among the more diversified economies and excluding Iraq, Lebanon had the highest GDP growth rate (an estimated 7.0 per cent), and Yemen had the lowest growth rate (0.5 per cent).

10. Egypt's economy, the largest among the more diversified economies and the second largest among all ESCWA member countries, is preliminarily estimated to have grown by 4.9 per cent in 1995, up from 3.9 per cent in the preceding year. The structural adjustment and economic reform undertaken under the auspices of the International Monetary Fund (IMF) since 1991 are beginning to yield some of the anticipated results. Non-oil exports, particularly textiles, fertilizers and some agricultural products, increased remarkably in 1995. Oil exports also increased owing to higher international oil prices as well as to the

Government's policy of substituting gas for oil for local consumption, thereby allowing for more oil exports. Though imports also increased considerably in 1995, the surge of imports of capital goods reflected favourably on productivity and economic growth. Sectors registering 5.0 per cent growth or more included industry, banking and tourism. Egypt received 3.13 million tourists in 1995, an increase of 21 per cent over the previous year. Income from tourism during its peak in 1992 was US$ 2.2 billion, but owing to terrorist activities this income dropped to US$ 1.3 billion in 1993 and US$ 1.5 billion in 1994; however, in 1995 it surged to an estimated level of over US$ 2 billion. International reserves at the Central Bank reached US$ 18 billion, sufficient to cover 12 months of imports of goods and services. Revenues from the Suez Canal in 1995 are estimated to have increased by US$ 56 million over 1994 and to have reached US$ 1.93 billion. Workers' remittances transferred to Egypt increased from US$ 4.6 billion in 1994 to an estimated US$ 4.7 billion in 1995, and hence totalled US$ 34.3 billion during the 1990s. In recognition of Egypt's greatly improved internal and external imbalances, IMF dropped its recommendation that the Egyptian Government devalue the Egyptian pound. Moreover, the members of the Paris Club are expected in 1996 to waive US$ 4 billion of Egypt's debt owed to them.

11. Iraq's economy is being devastated by the continuation of the United Nations sanctions imposed since August 1990. In 1995, economic conditions in Iraq witnessed further deterioration. The country continued to suffer from a rapidly depreciating national currency and hyper-inflation. Factories are working at below 30 per cent of their productive capacity, owing to the shortages of raw materials, spare parts and adequate maintenance. Similarly, the lack of spare parts, seeds, fertilizers, pesticides and herbicides led to a considerable decline in agricultural output in 1995. Owing to the United Nations embargo on Iraqi oil exports, Iraq has continued to limit its oil production to levels that only marginally exceed its domestic demand, which is far below its production capacity. In United States dollar terms, Iraq's GDP per capita in 1995 ranks it among those in the lowest group of the least developed countries in the world.

12. Jordan's economy in 1995 continued the solid performance that had started a few years ago, with its GDP growing by 6.3 per cent, after registering growth rates of 5.8 per cent and 5.7 per cent in 1993 and 1994 respectively. Jordan is reaping some of the rewards that had been expected from its implementation of the IMF-recommended structural adjustment programme and economic reform, as well as from the signing of a treaty of peace with Israel. Jordan's exports, which increased by 14 per cent in 1994, are estimated to have increased by more than 20 per cent in 1995. The construction, industrial and tourism sectors performed exceptionally well in 1995. Tourism revenues are estimated to have increased by 24 per cent to US$ 723 million in 1995, from US$ 582 million in the preceding year. Transferred workers' remittances to Jordan increased in 1995 by 13 per cent to US$ 1,266 million, up from US$ 1,121 million in 1994, and totalled US$ 5.2 billion for the period 1990-1995. Through debt repayment, forgiveness and rescheduling, Jordan was able to reduce its debt-service burden from US$ 1.2 billion in 1989 to less than US$ 500 million in 1995, thus freeing more resources for investment. 1/ The Jordanian dinar (JD) was pegged to the United States dollar in late 1995. The dinar has benefited from the Government's policy commitment to high interest rates in the range of

8.5-9.0 per cent on deposits (and 13.0-14.0 per cent on borrowing) in order to maintain the dinar's attractiveness. Although such a policy may encourage the inflow of workers' remittances and help to increase foreign currency reserves in the Central Bank, it discourages private businessmen from increasing their investments in the productive sectors, and dampens activities in the Amman stock market.

13. Lebanon continued the implementation of its reconstruction programme in 1995. Though GDP growth was at 7.0 per cent in 1995, down from 16.5 per cent and 8.0 per cent in 1993 and 1994 respectively, it remained the highest among all ESCWA member countries for the second year in a row. The Lebanese economy continued to benefit from the large-scale reconstruction activities being implemented in order to rebuild the infrastructure damaged by civil strife. The economy also benefited from a boom in the services sectors, particularly in tourism and banking. Capital inflows to the country remained significant. It is estimated that Lebanese expatriates transferred about US$ 6 billion to Lebanon during the past two years, in addition to the US$ 2 billion invested by GCC countries. Meanwhile Lebanon's balance of trade deficit widened in 1995 as its imports of capital and consumer goods increased. The Lebanese pound (LL) appreciated by 3.2 per cent versus the United States dollar in 1995. The Beirut Stock Exchange reopened in 1995, after a closure of nearly 13 years. Interest rates declined significantly towards the end of 1995, and this may accelerate investment activities in 1996, particularly in the construction and tourism sectors.

14. The Syrian Arab Republic's GDP in 1995 is estimated to have registered a growth rate of 6 per cent, compared with 5 per cent in 1994. The Syrian economy benefited from the rise in oil prices and the strong performance of the agriculture and tourism sectors. Investment Law No. 10 of May 1991 continued to attract the inflow of capital of Syrians repatriating savings held abroad as well as the transfer of workers' remittances. However, the country remained burdened by a large external debt and high rates of inflation and unemployment.

15. Yemen, confronted by severe internal and external imbalances, began implementing economic and structural reforms in 1995, under the auspices of the World Bank and IMF. The GDP of the region's least developed country is estimated to have grown by a meagre 0.5 per cent in 1995. Although this low GDP growth is an improvement over the negative growth rate of 0.5 per cent registered in 1994, it remains well below the country's high population growth rate of 3.7 per cent. Adjustment programmes often lead to an initial contraction in economic activity that is later reversed by expanding private investment and exports in response to structural reforms. The modest turnaround in GDP in 1995 may be attributed mostly to the growth of the oil sector, which benefited from higher prices and output.

16. The performance of the economy of the West Bank and Gaza Strip in 1995 was adversely affected by a poor harvest of the important olive crop as well as by the restrictions on employment of Palestinian workers in Israel. GDP is estimated to have registered a 3.0 per cent growth rate in 1995, compared with an estimated 7.3 per cent growth rate in the previous year. The West Bank and Gaza Strip continued to suffer from high inflation and unemployment rates.

17. Economic reform and structural adjustment programmes designed to correct internal and external imbalances as well as to enhance efficiency and productivity, which are particularly essential in a rapidly globalizing world economy, continued to be implemented in most countries in the ESCWA region in 1995. The trend of moving away from an inward-looking economic development strategy, which depended primarily on government involvement in the economy, towards an outward-looking development strategy that depends on a leading role's being taken by the private sector is becoming more apparent. Privatization of public enterprises is taking place, though at a very slow pace, in several ESCWA member countries. New investment and tax laws have been formulated to encourage private investment, both by local and by foreign investors. Substantial progress has been made in increasing non-oil exports, particularly by Egypt, Jordan and Lebanon. Nevertheless, private foreign investment in the region remained very modest compared with that in other developing regions. Most ESCWA member countries need to accelerate their privatization programmes in order to reduce the financial burdens of their respective Governments, enhance efficiency in several public sector enterprises, and encourage the repatriation of the considerable amount of capital held by nationals abroad. Governments' fear of rising unemployment and inflation rates continues to hinder a faster pace of privatization in the region.

18. In the GCC countries, most Governments in 1995 restrained their expenditures. Saudi Arabia, Oman and the United Arab Emirates raised fees on utilities, telephone calls, gasoline and various government services. Oman introduced a luxury tax targeting certain luxury items. Kuwait, Oman, and Saudi Arabia privatized parts of several public sector enterprises, and Saudi Arabia reduced the subsidy it provides to the agriculture sector. Oman, which has already embarked on sweeping reforms, has modified its investment laws to attract foreign investment. Foreigners are now allowed to have 100 per cent ownership of projects deemed necessary for the Omani economy, provided that their capital is not less than US$ 1.3 million.

19. In the more diversified economies, Egypt and Jordan continued the successful implementation of their respective structural adjustment and economic reform programmes, which they had begun in the early 1990s under the auspices of IMF. Yemen began in 1995 the implementation of its structural adjustment and economic reform programme as recommended by IMF and the World Bank. The pace of privatization in Egypt was slow in 1995 but gained momentum towards the end of the year and is expected to accelerate in 1996. Egypt's privatization policy changed in 1994, moving away from outright sales of state enterprises towards more gradual disinvestment through the sale of shares in the country's stock market and through long-term lease and management contracts. Economic liberalization continued in the Syrian Arab Republic, but no major privatization is envisioned in the near future. Nevertheless, the private sector is encouraged to play a major role in the tourism sector. Both Jordan and the Palestinian Authority passed investment laws in 1995 that are very encouraging to both domestic and foreign private investors.

20. Inflation rates jumped upward in the GCC countries in 1995 owing to the weakening of the United States dollar (the currencies of all GCC countries, with the exception of Kuwait, are pegged to the United States dollar) versus major European currencies and the yen, thereby raising prices of imports from the

European countries concerned and Japan. However, the reduction in subsidies of government-produced goods and services was the main reason for higher inflation rates in some GCC countries, particularly Saudi Arabia. Inflation nevertheless remains at very low levels as compared with those in other developing countries. In 1995, inflation rates among GCC countries are estimated to have ranged from 1.0 per cent in Oman to 4.8 per cent in Saudi Arabia and 5.0 per cent in the United Arab Emirates.

21. Among the more diversified economies, countries that have been implementing IMF-supported structural adjustment and economic reform, namely Jordan and Egypt, had the lowest inflation rates in 1995. Jordan's inflation rate in 1995 remained about 3.5 per cent for the second consecutive year, while Egypt's inflation rate, which fell from 12.1 per cent in 1993 to 8.2 per cent in 1994, is estimated to have fallen to 4.9 per cent in the year ending November 1995, its lowest level in 32 years. Yemen, the third country implementing an IMF-supported structural adjustment programme, witnessed its inflation rate drop from 100 per cent in 1994 to an estimated 45 per cent in 1995, and aims at reducing it further, to 20 per cent in 1996. Lebanon's inflation rate is estimated to have declined from 16 per cent in 1994 to 12.5 per cent in 1995. In the West Bank and Gaza Strip, the inflation rate remains high, despite its having fallen from 30 per cent in 1994 to an estimated 25 per cent in 1995. In the Syrian Arab Republic, the country's inflation rate, which increased from 13 per cent in 1993 to 15 per cent in 1994, is estimated to have risen again in 1995 owing to the reduction in government subsidies, the conversion of foreign exchange at more realistic rates, and the prevailing high liquidity in the economy. As for Iraq, it continued to suffer from hyper-inflation in 1995 as its national currency continued to fall sharply and the Government continued to depend very heavily on printing money to finance its expenditures. However, in early 1996, indications that Iraq would achieve an agreement with the United Nations to export US$ 2 billion worth of oil resulted in an immediate strengthening of the Iraqi dinar (ID), up into the range of ID 550-ID 700 to the United States dollar from a previous record low of ID 3,010 to the dollar. This improvement in the Iraqi dinar precipitated an instantaneous sharp decline in prices. The positive impact of possible oil exports in the near future was supported by prudent policies initiated by the Government early in 1996. The policies announced by the Government included a halt to the printing of money, a reduction in the excessive amounts of money in circulation, increases in the charges on government-provided goods and services, the sale of some government assets, and a relaxation of the restrictions on foreign exchange trading by allowing official exchange houses to trade at rates comparable with those available on the parallel market, as well as by allowing Iraqis living abroad to transfer funds to their relatives in Iraq.

22. High unemployment rates remain a major problem in the ESCWA region, particularly in the more diversified economies. Over several years, high population growth rates have contributed to an increase in the number of new entrants into the labour market to levels that exceed the capacity of these economies to fully absorb them. Moreover, employment opportunities beyond national boundaries are becoming increasingly limited. In addition, underemployment is prevalent, particularly in countries, such as Egypt, Jordan, the Syrian Arab Republic and Yemen, where the public sector is a major employer. Yemen and the West Bank and Gaza Strip had the highest unemployment rates in the

ESCWA region, estimated at 30 per cent in 1995. The high unemployment rate in Yemen is caused by high population growth rates, the return of large numbers of expatriates from the GCC countries in 1990-1991, low economic growth rates, and the reduction in government expenditures in 1995. The high unemployment rate in the West Bank and Gaza Strip may be attributed to high population growth rates, the frequent closure of the territories depriving more than 50,000 Palestinian workers of access to their jobs, the return of expatriates from the Persian Gulf, and delays in the implementation of major reconstruction projects. The unemployment rates in Egypt and Jordan remained high in 1995 at about 15 per cent. Both countries, in implementing economic reform, have been restraining government expenditures in the past few years. The Governments of Egypt and Jordan are implementing macroeconomic policies that encourage the private sector to absorb the large number of new entrants into the labour force, which in Egypt is estimated at about 500,000 per year. The Syrian Arab Republic also suffers from high unemployment, but at rates lower than those in Egypt and Jordan.

23. Although GCC countries are all labour-receiving countries, unemployment is rising among the indigenous population in some of these countries. Factors contributing to this phenomenon include particularly high population growth rates; the preference of nationals entering the labour force for working in the public sector, where job opportunities are becoming more scarce as the Governments attempt to reduce their involvement in economic development in favour of a greater private sector role; and a mismatch between the qualifications of job seekers and the skill requirements for available jobs.

24. The exports and imports of the region (excluding Iraq) in 1995 were positively affected by increasing oil prices and higher growth rates, which outweighed the negative effects of the continued economic sanctions against Iraq. Exports are estimated to have increased by 8.4 per cent while imports are estimated to have increased by slightly more than 9.2 per cent. The GCC countries' exports, which amounted to US$ 97 billion, accounted for 88 per cent of the region's total exports. This represented an 8 per cent increase over 1994 levels, and was largely due to increases in oil prices. Within this group the largest increases of more than 9 per cent, are estimated to have been recorded by Kuwait, Saudi Arabia and Qatar. Member countries with more diversified economies are estimated to have witnessed a significant increase in exports of more than 11.6 per cent during 1995, reaching over US$ 12.4 billion, largely owing to significant increases in the exports of Lebanon, Jordan and Egypt. This continued the reversal, begun in 1994, of the declining trend in exports of this group of countries noted since 1991.

25. Imports of the region in 1995 are estimated to have grown by approximately 9.2 per cent, representing a reversal of the previous year during which imports declined slightly. The imports of the GCC countries are estimated to have grown by almost 6 per cent, reaching approximately US$ 62 billion, equivalent to almost 80 per cent of these countries' oil revenues of US$ 78.4 billion in 1995. This was mainly due to estimated increases in imports by the United Arab Emirates, Qatar, Saudi Arabia and Kuwait, which ranged from more than 8 per cent to slightly over 5 per cent. Of this group, only Bahrain is thought to have recorded a slight decrease in imports. The more diversified economies are also estimated to have witnessed an increase in imports amounting to 16.6 per cent

over 1994 levels. Imports are preliminarily estimated to have reached over US$ 31 billion in 1995 for this group of countries, but this figure reflected wide variation in terms of changes at the country level. Significant increases of 12 per cent and higher were recorded by Lebanon, Egypt and Jordan, but other countries in this group are estimated to have had more modest increases in imports, ranging from less than 1 per cent to about 5 per cent. Although data for Iraq's foreign trade are unavailable, the country continued to be adversely affected by the United Nations economic sanctions.

26. The region's ability to finance imports from its export proceeds, as measured by the export/import ratio, remained the same in 1995 at 1.18. At the group level, the ratio for the GCC countries increased slightly from 1.53 in 1994 to 1.57 in 1995, mainly owing to increasing exports, while that of the more diversified economies decreased from 0.43 in 1994 to 0.40 in 1995, largely as a result of increasing imports.

27. The total current account balance of the ESCWA member countries for which comprehensive data are available (namely, Bahrain, Egypt, Jordan, Kuwait, Saudi Arabia and the Syrian Arab Republic) recorded a deficit of US$ 7.1 billion in 1994, which represented an improvement over the deficit of US$ 15.1 billion registered in 1993 (see table). The most significant improvement in 1994, however, was the decrease in Saudi Arabia's deficit from US$ 17.3 billion to US$ 9.1 billion, reversing a trend witnessed since the Persian Gulf conflict. Preliminary data for 1995 indicate that Saudi Arabia's current account deficit recorded a decrease once again, falling to US$ 5 billion. Kuwait reported another positive balance on its current account, which amounted to US$ 3 billion in 1994 compared with US$ 2.2 billion in 1993, as it continued to increase oil exports and as its financial commitments incurred during the Persian Gulf conflict declined. The more diversified economies recorded deficits in their combined current account in 1994 of US$ 1 billion after witnessing a surplus in the previous year largely due to a significant drop in Egypt's surplus from US$ 2.3 billion to US$ 31 million. Jordan and the Syrian Arab Republic recorded deficits, though Jordan's deficit declined over the 1993 level by approximately one third.

28. The exports of goods and services of the more diversified economies were less than their imports in 1994, though the deficit in the balance of goods and services declined only slightly over 1993 levels. Most of these countries rely on remittances to finance the overall trade deficit, and in 1994 remittances for this group of countries amounted to US$ 6.7 billion, a decline from the US$ 9 billion recorded the previous year. This decline was mainly due to the decline in Egypt's remittances, which fell from US$ 7 billion to US$ 4.62 billion. As Kuwait made a full return to the oil market during 1994, the GCC countries regained a surplus in the balance on goods and services, while continuing to record an outflow of remittances, reflecting their reliance on expatriate workers, but this amount decreased slightly from US$ 18.4 billion to US$ 17.7 billion. The largest contributor to this amount is usually Saudi Arabia, which witnessed an outflow of US$ 15.2 billion in 1994.

29. Partial and preliminary data for 1995 indicate that the international reserves of the region (excluding Iraq, the Syrian Arab Republic and Yemen) increased by 9.4 per cent over 1994 levels, from US$ 45.7 billion to

US$ 50 billion, as a result of higher reserves in both the GCC countries and the more diversified economies. This continued the trend of increasing international reserves in the region witnessed since 1991. The GCC countries account for slightly less than half of the region's reserves (US$ 24.2 billion), with Saudi Arabia and the United Arab Emirates the largest holders of reserves (US$ 9.8 billion and US$ 7.6 billion respectively). The more diversified economies hold US$ 25.9 billion in reserves; of these, Egypt is the largest holder of reserves with US$ 18 billion.

30. Most Governments in the GCC countries cut spending in 1995 as part of reforms aimed at tackling their budget deficits and reviving their economies, which had experienced relatively low growth rates in 1994. Aggregate budget expenditures were cut from about US$ 72 billion in 1994 to about US$ 68 billion in 1995. Over the past few years, the GCC countries managed to gradually reduce their budget deficits, owing to spending cuts and higher oil and non-oil revenues. From a record aggregate budget deficit of US$ 57 billion in 1991, the shortfall was reduced to about US$ 17.3 billion in 1994, and to nearly US$ 9.6 billion in 1995. In 1995, most GCC countries adopted policies aimed at raising non-oil revenues and restraining spending. To raise non-oil revenues, policies were implemented to increase prices and user fees of a number of public utilities. To restrain expenditures, policies were implemented to reduce subsidies and rationalize expenditures of the public sector.

31. In Kuwait, although actual oil revenues were about 25 per cent higher than projected, and expenditures about 15 per cent lower than their planned level, the budget deficit remained sizeable in fiscal year 1995/96, owing mainly to supplementary allocations for autonomous governmental institutions. In Oman, the increase in oil revenues is expected to reduce the 1995 projected budget deficit from about 312 million rials Omani (RO) (equivalent to US$ 811 million) to less than RO 192 million (equivalent to US$ 499 million), despite the rise in expenditures by about 3.5 per cent over their planned level of RO 2,159 million (equivalent to US$ 5.6 billion). In Saudi Arabia, both the rise in oil revenues and the introduction of measures to raise non-oil revenues in 1995 raised total government revenues by about US$ 2.9 billion over their budgeted level of SRls 135 billion (equivalent to US$ 36.5 billion), and reduced the ratio of the budget deficit to GDP from about 9 per cent in 1994 to about 2 per cent. In the United Arab Emirates, the rise in revenues and the restrained spending not only wiped out the 1995 projected federal budget deficit of slightly over 1 billion UAE dirhams (Dh) (equivalent to US$ 272 million), but also resulted in a budget surplus of about Dh 700 million (equivalent to US$ 190 million).

32. In most ESCWA member countries with more diversified economies, fiscal policy in 1995 continued to be deflationary. It was predicted that Egypt's budget deficit in fiscal year 1994/95 would drop to its targeted ratio to GDP, namely 2 per cent. However, the significant increase in current expenditures is expected to widen the planned budget deficit of about 8.8 billion Egyptian pounds (LE) (equivalent to US$ 2.6 billion) by about 6 per cent, despite the considerable rise in government revenues from oil and tourism. In Iraq, oil revenues usually constitute most of the Government revenues, but owing to the United Nations economic sanctions, the Government's borrowing from the banking system during the past few years has been the sole means of bridging the gap between revenues and expenditures, and this has led to a steady erosion of the

purchasing power of the Iraqi dinar and further contributed to the country's hyper-inflation. The projected deficit of about US$ 73 million in Jordan's budget in fiscal year 1995 is estimated to have been exceeded only slightly in actual terms. The realization of almost all projected aid and grants kept the deficit close to budgeted figures. In Lebanon, the 1995 budget expenditures turned out to be almost double the budget revenues, leading to a significant accumulation of budget deficits, estimated at over US$ 3.5 billion over the past five years, and resulting in a rise in public debt equivalent to US$ 7.5 billion in 1995. In the Syrian Arab Republic, tax and non-tax revenues financed over 77 per cent of the 1995 budget expenditures. In the West Bank and Gaza Strip, the Palestinian Authority, with its takeover of taxation from Israel in 1995, was able to collect about US$ 70 million in tax revenues which, together with about US$ 130 million from foreign funding sources, was used to cover the 1995 budget deficit, estimated at about US$ 200 million. In Yemen, a preliminary estimate of the 1995 actual budget indicates that the ratio of budget deficit to GDP dropped to 7 per cent, down from 17 per cent in 1994, mainly owing to the significant cut in expenditures, particularly in defence spending and subsidies.

33. The external debt of the countries in the ESCWA region, excluding Iraq, remained in 1995 at almost the same level as that of 1994, namely at about US$ 182 billion. The drop in the external debt of a number of ESCWA member countries, such as Jordan, Kuwait and Saudi Arabia, was by and large negated by the rise in the external debt of other ESCWA member countries, such as Egypt, Lebanon and Yemen. The external debt of Jordan dropped from about US$ 7 billion in 1994 to about US$ 6 billion in 1995, following the cancellation of about US$ 1 billion by a number of Jordan's creditors. The external debt of Kuwait and Saudi Arabia, which is mainly commercial with relatively high interest rates, was reduced significantly in 1995, as the two countries cleared major tranches of their debt incurred in the wake of the Persian Gulf crisis. The external debts of Egypt and Lebanon increased considerably in 1995, as the external debt of the former increased to about US$ 33 billion, up by about 7 per cent from the amount in 1994 (equivalent to US$ 31 billion), and that of the latter increased to about US$ 1.3 billion, up by about 68 per cent from the amount in 1994 (equivalent to US$ 772 million).

34. In almost all GCC countries, the increase in M2 money supply (currency in circulation + demand deposits + quasi-money) during the first nine months of 1995 resulted mainly from the increase in quasi-money (private time and saving deposits), which in a number of these countries, such as Kuwait and the United Arab Emirates, made up over two thirds of the total increase in the money supply. The money supply in Kuwait amounted to about 7.4 billion Kuwaiti dinars (KD) (equivalent to US$ 25.3 billion) at the end of September 1995, up by about 10 per cent from 1994. The increase in M2 in the United Arab Emirates was about 7.2 per cent during the same period. In Bahrain, Oman and Qatar, the increase in M2 was lower, amounting to about 5 per cent, 5.5 per cent and 6.7 per cent respectively.

35. In Jordan, M2 amounted to about JD 5.1 billion (US$ 7.4 billion) at the end of September 1995, up by about 6.2 per cent from the amount in 1994 (JD 4.8 billion). The increase was mainly due to a 7.5 per cent rise in quasi-money, with private sector deposits recording most of the rise. In

Lebanon, M2 grew by about 12 per cent during the first nine months of 1995, mainly owing to a rise in credit to the public sector.

36. Egypt's success in reducing the inflation rate during the past several years is expected to pave the way for a further cut in interest rates in 1996. The Egyptian pound has been stabilized since 1991 at between LE 3.38 and LE 3.40 = US$ 1. To quell the fears that the Jordanian dinar would be devalued and to offer dealers in the Jordanian dinar the opportunity to take advantage of the interest rate differential between the Jordanian dinar and the United States dollar, the Central Bank of Jordan decided in late 1995 to discontinue pegging the Jordanian dinar to a basket of currencies, pegging it to the United States dollar instead. In 1995, Jordan maintained its policy of high interest rates in order to fight inflation and to attract dinar deposits away from foreign currencies.

37. In order to increase confidence in the Lebanese pound (LL) and to encourage bank depositors to change their accounts to those denominated in Lebanese pounds, the Lebanese authorities decreed in November 1995 that all retail transactions would be denominated in Lebanese pounds, instead of United States dollars. (At the end of September 1995, around two thirds of bank deposits in Lebanon had been held in United States dollars.) In an effort to promote Lebanon as a potential financial centre, banks were advised by the authorities to cut their interest rates on foreign currency deposits and align these rates with international levels. In its efforts to gradually unify the multiple exchange rates of the Syrian pound (LS) and to free the rate completely at a later stage, the Government of the Syrian Arab Republic decreed in early 1996 an exchange rate for the Syrian pound of LS 23 = US$ 1. This rate, however, is currently limited to the foreign exchange revenues from Syrian oil exports and offered only to the Central Bank of Syria and the Syrian Commercial Bank in order to replace the hitherto prevailing rate of LS 11.2 = US$ 1. Earlier, in October 1995, the Government had introduced a "tourism rate" of LS 42 = US$ 1. The so-called neighbouring countries' exchange rate, remained, however, at around LS 50 = US$ 1 in 1995.

38. In early 1996, Yemen, taking a step that falls within the framework of the country's economic reform programme, abolished its official exchange rate for the Yemeni rial (YRl). The Yemeni rial was devalued in March 1995 from YRls 12 = US$ 1 to YRls 50 = US$ 1. Until the abolition of the official exchange rate, the parallel market rate was around YRls 130 = US$ 1. To help finance the budget deficit and reduce liquidity in the market and consequently the inflation rate, the Central Bank of Yemen started issuing Treasury bills in late 1995. The two issues offered so far are considered an initial step towards developing a financial market in Yemen. In March 1995, the interest rate on bank savings deposits was raised from 9 to 22 per cent.

39. The tighter conditions that characterized the banking markets in the ESCWA region throughout most of 1994 continued during the first half of 1995 but eased significantly during the second half of that year following an upturn in economic activity. The increase in the oil revenues of the GCC countries and the revenues of other ESCWA member countries from trade in services, particularly tourism, contributed to this development. The business upswing resulted in ESCWA region banks making record profits in 1995, despite a number

of obstructing factors, the most important among which were the relatively high interest rates, the banks' continued need for further provisioning against non-performing loans made during the 1980s and early 1990s, the drop in income generated from trading in securities, and the continued pressure to maintain internationally accepted capital adequacy standards.

40. However, most banks in ESCWA member countries continued in 1995 to strive for further development in the retail and consumer banking business, which resulted in an increase in the latter's share in the region's banking market to 55 per cent, compared with 45 per cent in 1994. In 1995, banks in a number of ESCWA member countries enjoyed the benefits of the rationalization imposed on them by their monetary authorities, particularly in terms of merger and structural reforms. The banks also benefited from participation in government privatization efforts by underwriting and providing financial advisory services through the arranging of sales of public sector enterprises. The government privatization efforts in a number of ESCWA member countries, notably Egypt and some GCC countries, encouraged banks in those countries to set up mutual funds investing in local as well as regional equities, thus increasing the banks' opportunities to diversify their sources of income on the one hand, and to contribute to the development of the region's financial markets and the building of closer linkages among these markets on the other.

41. Stock markets in most ESCWA member countries emerged in 1995 as a major constituent of the financial systems of these countries. For banks and other financial institutions as well as corporations, stock markets proved to be an adequate vehicle for raising private capital. For the public sector, they proved to be an appropriate channel through which to offer the stocks of those companies going through the privatization process. For the private sector in general, the stock markets are considered an important medium for the diversification of investment. Though advances have been noted, most stock markets in the ESCWA region were still far from the point where they could be considered emerging markets by international standards in 1995. Their insufficiently developed legal, administrative and institutional infrastructures have inhibited their ability to mobilize and allocate satisfactorily the financial resources required for development.

II. SECTORAL DEVELOPMENTS

42. Crude oil production in the oil-exporting ESCWA member countries increased in 1995 by almost 1 per cent to an average of 15.89 million barrels per day (mbd), up from an average of 15.75 mbd in 1994. Most of this is attributed to the increases achieved by Oman (6.3 per cent), Iraq (5 per cent), Qatar (4.5 per cent), the Syrian Arab Republic (4.3 per cent) and Yemen (1.5 per cent). On the other hand, crude oil production remained unchanged in the rest of the ESCWA member countries, owing either to quota limitations in countries that are members of the Organization of the Petroleum Exporting Countries (OPEC), or to limited production capacity in the rest of the region's oil-producing countries.

43. Policy changes have been introduced during the past few years by several oil-producing countries in the region. Since 1994, Egypt has increased its

export of refined products and reduced the export of crude oil, so as to maximize its oil revenues while maintaining its current oil production level. In Saudi Arabia, the main policy change introduced has been to increase production of light crude, at the expense of heavier and less expensive crudes, in order to maximize revenues while maintaining its OPEC-assigned production quota of an average of 8 mbd.

44. The 1992-1994 trend towards declining oil prices (the average price of the seven OPEC crudes) reversed itself in 1995, and oil prices rebounded to an average of US$ 16.88 per barrel, up by 8.7 per cent from US$ 15.53 per barrel in 1994. Most of this adjustment, however, was witnessed during the first half of 1995, when oil prices were boosted by an increase in demand owing to cold weather conditions in the northern hemisphere, the decision by OPEC in November 1994 to roll over its production ceiling for the whole of 1995, and Iraq's refusal to implement Security Council resolution 986 (1995), in which the Council authorized States to permit the limited import of petroleum and petroleum products originating in Iraq for humanitarian purposes. However, oil prices in 1995 remained 19.6 per cent below the OPEC price target of US$ 21 per barrel and still at about 47 per cent of the 1980 level of US$ 36.01 per barrel. Oil prices in the short term, barring a major supply shock, are expected to remain soft, averaging between US$ 15 and US$ 18 per barrel as world oil demand is expected to moderate, reflecting slower economic growth in the Organisation for Economic Cooperation and Development (OECD) countries and an increase in the oil supply emanating from non-OPEC sources.

45. The oil revenues of the ESCWA oil-exporting member countries, which fell by 5 per cent in 1994, rebounded in 1995 and are estimated to have increased by 9.3 per cent to US$ 78.4 billion, up from US$ 71.8 billion in 1994. Most of this increase is attributed to the 8.7 per cent upward adjustment in oil prices. Oil revenues increased in all oil-exporting countries in the region, and the greatest increases occurred in those countries that had managed to boost crude oil production, including Oman (14 per cent), Qatar (13.7 per cent) and Yemen (10.3 per cent). The increase in the oil revenues of the rest of the oil-exporting countries in the region was generally in proportion to that of oil prices. In terms of oil revenues, 1995 was the best year for the region since 1992, when oil revenues reached US$ 78.8 billion.

46. The refining capacity of the ESCWA region's oil-exporting countries of 4.76 mbd in 1995 was almost unchanged from its 1990 level of 4.789 mbd. The increase in the refining capacity of Kuwait and the United Arab Emirates by 24 per cent and 5.1 per cent respectively during the period 1990-1995 was negated by the decline in the refining capacity of Saudi Arabia by about 10 per cent to 1.67 mbd in 1994, down from 1.86 mbd in 1990. In the rest of the countries of the region, refining capacity remained unchanged during the period. However, several countries in the region, particularly Egypt, Kuwait and the United Arab Emirates, have embarked upon a number of projects to expand their refining capacity during the period 1997-2000, so as not only to satisfy their domestic consumption of refined products and thus reduce their imports but also to boost their exports of refined products, in order to maximize their oil revenues while maintaining their current oil production. Several ESCWA member countries are currently undertaking projects to expand their refining capacity. However, these efforts are limited by their financial situation, particularly

for an industry that is capital-intensive, and thus several countries, such as Egypt, are considering allowing the private sector to participate in these efforts.

47. Proved oil reserves in the ESCWA region in 1995 are estimated at 570 billion barrels, unchanged from their 1994 level. The ESCWA region's proved oil reserves in 1995 accounted for about 57 per cent of the world total and around 74 per cent of OPEC total proved oil reserves.

48. Limited water resources, increasing water demand imposed by a rapidly growing population and development activities, and degradation of water quality all contribute to the problem of water scarcity in the ESCWA region. The water problem is further complicated by the fact that substantial volumes of both surface water and groundwater are withdrawn from rivers and aquifers that are shared among countries within and outside the ESCWA region. Moreover, land uses such as irrigation and range practices are leading towards desertification as a result of soil salinization and overgrazing.

49. To overcome natural water scarcity, some ESCWA member countries augment their water sources through desalination of sea water and brackish water, as well as by the reuse of renovated waste water. Non-conventional sources have become major supply components, especially in the GCC countries. In addition, significant efforts have recently been made by many ESCWA member countries to formulate, implement and update their water plans. Some countries of the region have recently enacted laws and regulations to protect existing water sources and to reduce the adverse effects of excessive water utilization on water quantity and quality. However, further efforts are needed to develop human resources in the water sector, to focus on integrated water resources management, and to strengthen institutional arrangements.

50. Since the ESCWA region is a large net importer of cereals, developments in world supply and prices of cereals have a marked impact on the region's food import bill. The reduction in world cereal production coupled with the start of the application of the Agreement on Agriculture (contained in the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations) 2/ in 1995, in addition to other factors, led to a considerable rise in world prices of cereals. By late November 1995, the world export price for wheat (USA wheat, No. 2, hard Winter) was US$ 202 per ton compared with US$ 163 per ton in November 1994, reflecting a 24 per cent increase. Similarly, during the same period, the prices of maize and rice increased by 50 per cent and 27 per cent respectively.

51. Preliminary estimates for 1995 indicated that the ESCWA region's production of cereals was around 30.8 million tons, or 7.6 per cent more than that for 1994. This was mainly due to a large increase in Egypt's cereal production and favourable weather conditions in most of the ESCWA member countries. In the GCC countries, cereal production is estimated to have increased in 1995 by 4.8 per cent, totalling 4.3 million tons (mainly from Saudi Arabia), and to have accounted for about 14 per cent of the ESCWA region's total production. In the more diversified economies, preliminary estimates indicate that cereal production increased by 8.0 per cent and totalled 26.5 million tons in 1995. Egypt was the largest cereal producer, with its production representing about

55.2 per cent of the ESCWA region's total cereal production in 1995. Self-sufficiency ratios in cereal and wheat in the ESCWA region are estimated at 57.7 per cent and 55.4 per cent respectively in 1994, compared with 50.2 per cent and 33.9 per cent respectively in 1980.

52. In 1994, the value of agricultural trade in the ESCWA region was estimated at US$ 17.3 billion, representing about 9 per cent of the region's total trade. Agricultural trade increased by 1.7 per cent in 1994 compared with 1993, mainly owing to the increase in agricultural exports (particularly non-food exports such as cotton lint and live animals) by 11 per cent, registering a value of US$ 2.9 billion. Agricultural imports registered a slight increase of 0.6 per cent and reached US$ 14.4 billion (see table). Agricultural exports covered only 20.4 per cent of agricultural imports in 1994 compared with only 18.5 per cent in 1993.

53. Food imports increased by 2.5 per cent in 1994, amounting to US$ 11.8 billion, and the food gap also increased by 2.9 per cent to reach US$ 10 billion. This gap was expected to have widened in 1994/95 as a result of world agricultural trade liberalization in the light of the application of the Uruguay Round Agreement. Food exports covered only 15.8 per cent of food imports in 1994 compared with only 16.2 per cent in 1993. Food imports represented 12.8 per cent of total imports in 1994, while food exports represented only 2 per cent of total exports.

54. Some ESCWA members continued the economic reform programmes of their respective agricultural sectors in 1995, with varying success. In Egypt, the Government liberalized production and marketing activities of agricultural inputs and of most crops. In Jordan, producer subsidies are being removed on all crops, and thus the 1994/95 prices for wheat and barley, which were until recently subsidized, indicate a zero subsidy. The Government plans to liberalize trade in barley and to phase out public sector involvement in the near future. Similar reform programmes in the agricultural sector are being implemented in the Syrian Arab Republic. The Palestinian Authority in the West Bank and the Gaza Strip has just started to build up the required institutional capabilities for the agricultural sector and has concentrated its efforts on establishing a Ministry of Agriculture. Such a step is essential for the rehabilitation of the Palestinian agricultural sector.

55. The Uruguay Round Agreement has affected the food import bill of the ESCWA region, which, as preliminary estimates indicate, has increased by 7.8 per cent in 1995 and is projected to register an average annual increase of 8.9 per cent during the period 1996-2000. In addition, the new trade policy in the European Union (EU), particularly for fresh vegetables and fruits, of applying the entry price system will adversely affect the export of these products to EU from ESCWA member countries such as Egypt, Jordan, Lebanon and the Syrian Arab Republic.

56. In Egypt, the agricultural sector performed well in 1995. Preliminary estimates indicate that cereal production increased by 11.1 per cent and reached 17 million tons, and production of wheat increased by 28 per cent to a record 5.7 million tons, mainly owing to the increased use of high-yield varieties. The self-sufficiency ratio in wheat is currently more than 50 per cent compared with only 25 per cent in 1982. The Government is aiming to achieve a

self-sufficiency ratio of 75 per cent in wheat by the late 1990s. The output of paddy is expected to have increased by 113,000 tons so as to reach 4.7 million tons in 1995, and the export target for rice in 1995 was fixed at 500,000 tons compared with 200,000 tons exported in the previous year.

57. In Iraq, although weather conditions were favourable, cereal production is estimated to have decreased by 10 per cent to 2.5 million tons in 1995, owing to the lack of foreign exchange, and this led to a significant reduction in the use of agricultural inputs, particularly spare parts, fertilizers and pesticides. There are extreme shortages of basic food items and an estimated US$ 2.7 billion is needed to meet the import requirements for 1995/96.

58. In Jordan, the aggregate production of wheat and barley in 1995 is preliminarily estimated to have increased by about 8 per cent to 129,000 tons, owing to a marked increase in the area planted. Production of lentils more than doubled to reach 5,000 tons, while the production of potatoes remained unchanged at about 90,000 tons.

59. In Lebanon, the combined production of wheat and barley in 1995 is expected to be about 73,000 tons, 10,000 tons higher than the previous year. However, cereal production covers only about 10 per cent of total requirements, and the country is completely dependent on imports to meet demand for rice, sugar and milk powder. Imports of cereals, mainly wheat, are expected to total about 750,000 tons in 1995/96, an increase of some 4 per cent over 1994/95.

60. During the past several years, the Government of Saudi Arabia has been pursuing a policy that aims at reducing wheat production to the level of local demand, primarily in order to conserve limited water resources. Production of wheat in 1995 is estimated at about 2.5 million tons, compared with 3.4 million tons in 1993. Nevertheless, wheat production remained higher than domestic requirements, and exports are expected to continue in 1995/96 and register about 700,000 tons. Preliminary estimates indicate that barley production increased slightly to 1.6 million tons, while imports decreased by about 200,000 tons to 4 million tons.

61. In the Syrian Arab Republic, cereal production in 1995 is estimated at 6 million tons, a figure that is 8 per cent higher than in the previous year. Wheat production increased by 330,000 tons to reach 4 million tons, while barley production is estimated at 1.6 million tons, almost 10 per cent more than the 1994 production level. Successive bumper cereal harvests have resulted in serious storage problems and the need to mill part of the domestically produced wheat in Lebanon.

62. In Yemen, cereal production in 1994 is estimated at 750,000 tons, approximately 6.5 per cent lower than the 1993 level. Cereal imports in 1995 are estimated to total 2 million tons, 19 per cent higher than the preceding year.

63. The manufacturing sector in the ESCWA region, excluding Iraq and the West Bank and Gaza Strip, registered a growth rate of approximately 3.6 per cent in 1995, compared with more than 4 per cent in 1994 and slightly less than

3 per cent in 1993. The fluctuations in growth in this period are mainly due to fluctuations in the oil sector.

64. Structural adjustment programmes and the policy to reform the public sectors continue to have an impact on the performance of the manufacturing sector, especially in the more diversified economies. Expansion in the manufacturing sector was also influenced by a rise in the value of production and export of major products, such as petrochemicals, fertilizers, aluminium and textiles. This expansion was stimulated by the continued economic recovery in developed market economies, which are major export markets.

65. Growth in the manufacturing sector in countries of the ESCWA region continued to be restrained by trade barriers in major markets (such as the European Union), particularly for major export products such as petrochemicals, aluminium and fertilizers, and by the difficulty in opening new export markets as well as in maintaining existing ones, owing to increased international competition, particularly from East Asian products. In many countries of the region, shortages in electricity generation capacity continued to represent a significant obstacle to growth in the manufacturing sector, particularly since most Governments are operating under increasingly reduced budgets and face some difficulties in financing major planned electricity generation facilities. Other constraining factors include reduced public investment in manufacturing projects in most countries, with the private sector still unable to compensate adequately for public sector retrenchment. In many of the more diversified economies, the slow pace of economic reforms and trade liberalization continued to force the private sector to operate far below its potential. In the GCC countries, the growth rate in manufacturing income (value added) in 1995 is estimated to have maintained the level of the previous year, averaging about 3.6 per cent in real terms, compared with 2.6 per cent in 1993. Growth in this sector is mainly attributed to an increase in the export of oil-based products, particularly petrochemicals, fertilizers and methanol, and in aluminium. It was also the result of expansion of domestic non-oil private sector activities. In 1996, the export-oriented industries are expected to continue to expand because of good growth prospects in the main export markets. Growth is expected to continue in other industries, such as food and beverages, and to slow down in sectors that are influenced by public sector expenditure.

66. In the more diversified economies, apart from Iraq and the West Bank and the Gaza Strip, overall performance in manufacturing in 1995 is estimated to have achieved a growth rate of around 3.6 per cent, compared with 5 per cent in 1994 and 3.6 per cent in 1993. Yemen was the only country to record substantial deterioration in its performance in 1994 and 1995. This was caused primarily by the civil war in the country in 1994.

67. Growth performance among the more diversified economies varied with different industries. Some sectors continued to flourish, particularly the export sector of the textile and garment industry in Egypt and the Syrian Arab Republic. They were partly stimulated by the recent focus of government reform policies on the promotion of an outward-looking industrial strategy. In Lebanon, the construction materials industries expanded rapidly to meet the needs of the substantial reconstruction works in the country. Cement plants operated at full capacity during 1995, and there are plans to expand and upgrade

operations. Manufacturing expansion in the more diversified economies of the ESCWA region in 1996 will depend to a great extent on finding new export outlets and reducing restrictions on domestic input supplies to manufacturing industries. This is particularly true in the textile and garment and the food industries in Egypt and the Syrian Arab Republic. It will also depend on implementation of plans to overhaul old capacities and install new technologies, particularly in Lebanon, so as to help improve the competitiveness of their products on the international market. Manufacturing expansion will also depend to a great extent on the ability of Governments in the more diversified economies to accelerate the implementation of promised reforms, particularly in Egypt, Jordan and the Syrian Arab Republic.

68. Most countries in the region have joined, or are preparing themselves to join, the World Trade Organization so as to link with the global market and help revive their economies. This could help them to gain access to a huge market, further their development prospects, and qualify for financial and developmental aid. All these challenges require accelerating the pace of implementation of economic reforms and deregulation, speeding up the process of industrial restructuring and promoting national competitiveness. Sustainable industrial development in the ESCWA region can only be achieved within the framework of a business environment appropriate for attracting long-term investment. This may be partially obtained through the establishment of an investment-friendly private sector environment, and the promotion of feasible trade cooperation arrangements within the ESCWA region and with neighbouring countries. Further progress in the peace process would also help strengthen development prospects in the manufacturing sector.

69. The major long-standing challenges confronting the transport sector in the ESCWA region persisted in 1995. These challenges include the completion of the reconstruction and rehabilitation of networks damaged during the wars and occurrences of civil strife that have plagued the region during the past decade; the standardization of technical specifications, harmonization of border crossing procedures, and removal of non-physical trade and transport barriers; and the improved maintenance of the existing infrastructure and equipment which is not considered, as is the case in other developing countries, among the priority areas for regular funding.

70. However, at the Middle East/North Africa (MENA) economic summit of 1995, transport projects were regarded as essential for economic and social development and for regional cooperation. A subregional rail network linked to North Africa and Europe is under consideration by some countries in the region. A road/rail bridge over the Suez Canal is being negotiated between Egypt and prospective financiers. Also, projects for the development of seaports and airports in the Gulf of Aqaba area are being formulated among neighbouring countries and are expected to receive financial support from various donor countries and financial institutions.

71. The expansion and development of a number of international airports in ESCWA member countries reflect the importance of air transport in the region. Bahrain, Jordan and Qatar have improved the passenger terminal facilities in their respective international airports in order to meet the anticipated increase in traffic flows in the coming years.

72. The economic outlook for 1996 in the GCC countries will be determined mostly by developments in the oil sector, given the dominant share of the sector in these countries' GDP, exports and government revenues. Indications are that international oil prices will register only modest, if any, increases in 1996. In addition, oil production is close to production capacity in most GCC countries, and thus only marginal increases in production are anticipated. Government budgets for 1996 indicate restrained expenditure. Privatization is expected to remain fairly limited, and hence the contribution of the private sector may be expected to show only modest growth. In all, the GDP growth rate in 1996 for the GCC countries as a group may be projected to be below its 1995 level.

73. Though oil is an important source of foreign exchange for some of the more diversified economies among the countries in the ESCWA region, the response of the private sector to economic reform and encouragement by the Government will determine economic prospects in 1996. Indications are that the private sector's role will be greatly enhanced in the more diversified economies, given the investment legislation and the significant increase in the pace of the privatization programme that is expected in Egypt, by far the largest economy among this group of countries. The anticipated benefits stemming from the MENA economic summit and the Euro-Mediterranean Conference, held in Amman and Barcelona respectively during the fourth quarter of 1995, are expected to favourably affect economic growth and trade developments in the more diversified economies of the region. The GDP growth rate in 1996 for the more diversified economies as a group are foreseen to be higher than the level achieved in 1995. A comprehensive peace settlement in the Middle East, when achieved, may be expected to give a tremendous boost to confidence in the region among private investors, both domestic and foreign.

III. SOCIAL DEVELOPMENTS

74. The ESCWA region has continued to witness high population growth and rapid urbanization. This phenomenon, coupled with political instability and continued, widening income disparities among countries of the region and within each country, has been contributing to accelerating poverty and unemployment, particularly in urban areas.

75. The population of the ESCWA region was estimated at 143.3 million in mid-1994, representing approximately 2.5 per cent of the world population (5.6 billion). During the preceding 12 months, the population had grown by 3.5 million, and it is expected to grow by an additional 3.5 million, or 4 per cent of the world's annual increment (87 million), during the subsequent 12 months to reach 150.2 million by mid-1996.

76. The annual population growth rate varies considerably among ESCWA members. During 1994-1996, the population has grown fastest in Kuwait (7.07 per cent per annum) and slowest in Egypt and Qatar (1.79 and 1.31 per cent per annum respectively). As the rapid change in the size of Kuwait's population resulted mainly from the migration streams of nationals and non-nationals who returned to the country after the Persian Gulf crisis, Kuwait's population growth is expected to slow down in the near future. Moreover, the West Bank and Gaza

Strip also had a high population growth rate (3.91 per cent per annum), and this high growth rate is related to the relatively high fertility rates in the Gaza Strip and the migration flows into the territories after the start of the Middle East peace process.

77. In mid-1994, 40.72 per cent of the total population of the ESCWA region was under age 15, and 3.47 per cent was over age 65. By mid-1996, it is expected that 40.36 per cent of the total population will be under age 15, and 3.45 per cent will be over age 65. This means that there has been a slight contraction of the base of the population pyramid of the ESCWA region during 1994-1996, but to varying degrees among different countries. In mid-1994, Yemen reached a record level, with 51 per cent of its population under age 15. The Syrian Arab Republic and the West Bank and Gaza Strip also had high levels (49 per cent and 48 per cent, respectively). On the other hand, Qatar has had the lowest level in the region (26 per cent), and in general the GCC countries have had low levels, which are explained by the large number of non-nationals aged 15 years or over working in these countries.

78. The crude birth rate for the total population in the ESCWA region was 31.3 births per 1,000 population in mid-1994, exceeding that of the less developed regions of the world (25 per 1,000 in 1990-1995) and more than twice the crude birth rate of the world's more developed regions (13 per 1,000 in 1990-1995). At mid-1996, this situation is expected to be the same, with the crude birth rate for the ESCWA region equal to 30.1 births per 1,000 population (see table).

79. The total fertility rate (TFR) is the basic indicator of the fertility level of a certain country or region. In mid-1994, the total fertility rate of the ESCWA region was 4.6 births per woman, and it is expected to decline by mid-1996 to 4.5 births per woman; this decline in fertility can be attributed to a fertility decline in the most populous country, Egypt, and also to a fertility decline in the Syrian Arab Republic and Jordan. The countries of the ESCWA region have relatively high TFRs. TFRs vary, however, among different countries and areas; thus, in mid-1994, while Yemen, the West Bank and Gaza Strip, Oman, Kuwait and Saudi Arabia maintained a TFR between 6 and 7.5 births per national woman, the TFR was less than 4 in Egypt and less than 3 in Lebanon. This situation is expected to continue in mid-1996, when the TFR will be highest in Yemen (7.5 births per woman) and lowest in Lebanon (2.76 births per woman).

80. In mid-1994, the crude death rate for the ESCWA region was 6.98 deaths per 1,000 population, which was less than the world's crude death rate (9.3 deaths per 1,000 during 1990-1995) and also less than the crude death rate for the world's more developed regions (10.1 deaths per 1,000 during 1990-1995). This is a consequence of large reductions at every age level, especially in the GCC countries, and the absence of significant counterbalancing age structure changes, such as those that have occurred in the more developed regions. By mid-1996, the crude death rate for the ESCWA region is expected to decrease to 6.82 deaths per 1,000 population.

81. The infant mortality rate for the ESCWA region was 58.38 per 1,000 during 1994-1996, 61.24 per 1,000 for males and 55.32 per 1,000 for females. In mid-1994, there were large variations in the mortality rate among the countries

of the ESCWA region. In Iraq, it reached a record level, with more than 90 deaths per 1,000, and Yemen was close behind with more than 80 deaths per 1,000. On the other hand, Kuwait had the lowest level, with less than 16 deaths per 1,000, and as of mid-1996 this situation is expected still to prevail, with Iraq having the highest level (91.94 per 1,000) and Kuwait the lowest (15.9 per 1,000).

82. Human settlements in the ESCWA region are at an important juncture in their development process, challenged by sweeping demographic, socio-political, economic and technological changes that affect their structure and shape as well as their existing and potential role in generating and sustaining growth. Rapid urbanization is placing considerable pressure on these settlements, as they must continuously absorb growing numbers of people in need of adequate housing, infrastructure, income and social services.

83. The urban population in the ESCWA region has grown from accounting for only 22 per cent of the total population in 1950 to 35 per cent in 1965, 47 per cent in 1980 and 53 per cent in 1993, and the figure is expected to reach 58 per cent by the turn of the century. During the past decade, all ESCWA member countries, except the United Arab Emirates, registered rates of urban population growth higher than the growth in their total population.

84. Rapid urbanization is not solely the result of a natural increase in population and rural-urban migration; it has also been shaped by a massive flow of population between labour-sending and labour-absorbing countries in the ESCWA region, generating, in turn, a whole array of urban-related activities at both ends.

85. Despite some variations at the national and local levels, the impact of urbanization on urban areas, and particularly on large cities, has manifested itself in a boom in housing construction coupled with the dual effect of soaring land and housing prices. Between 1981 and 1991, the housing stock throughout the ESCWA region increased at an average rate of 4-5 per cent per annum, matching more or less the population growth rate and urbanization trends observed during this period. While data on the changes in housing and land prices are not available across the region in a standardized form so as to allow the assessment of housing affordability, it is still possible to claim that housing markets in such cities as Amman, Cairo, Sanaa, Beirut and Damascus remain beyond the reach of a growing category of lower-income people. This is reflected in increased overcrowding, a failure to replace substandard housing units and the spread of squatter settlements, paralleled by high vacancy rates in luxurious dwellings in cities such as Amman, Cairo, Damascus and Beirut. Thus, in Cairo, the housing deficit is estimated at 265,000 dwelling units per annum for the period 1996-2000, while Egypt has an estimated 1.8 million vacant housing units. Similarly, in Amman, 13,000 dwelling units per year are needed for the period 1996-2000, while the vacancy rate is estimated at about 14 per cent of the existing housing stock.

86. Alternatively, in the GCC countries, high vacancy rates reflect a different aspect of the housing problem. The ratio of vacant units to the total housing stock has ranged from 6 per cent in Kuwait up to 15 per cent in the United Arab Emirates, between 1985 and 1991. This is indicative of the dependence of these

countries on an expatriate labour force, which makes them vulnerable to fluctuations in the job market, as was witnessed during the recession in these countries in the mid-1980s. As a result, their efforts to efficiently plan urban expansion and public service delivery, including the construction of large-scale housing projects, could bring redundancy in urban service delivery, if a major drop in the number of expatriates occurs.

87. In the GCC countries, between 75 and 90 per cent of households have access to water, a sewerage network and electricity; and over 95 per cent of dwellings in these countries are connected to kitchen and bathroom facilities. However, corresponding figures are much lower in the more diversified economies that have a much lower income per capita. In addition, aggregate figures hide significant differences between urban and rural areas and spatial disparity within the same urban areas. Squatter settlements in Sanaa, Hodeida (Yemen), the West Bank and the Gaza Strip, Beirut, Baghdad, Amman and Aqaba, to name a few, lack access to adequate housing, sanitation and garbage collection, with the situation thus resulting in serious environmental problems that extend beyond these informal settlements.

88. Environmental conditions deteriorated further in many areas in the ESCWA region in 1995. The causes of environmental degradation included rapid population growth, inappropriate economic and social policies, weak regulatory and administrative systems, and insufficient public awareness. Most ESCWA member countries have developed, or are developing, strategies or plans to combat environmental degradation and achieve sustainable development. However, financial constraints and reduced public expenditure are apparently hindering the implementation of such strategies and plans.

Notes

1/ On 28 October 1995, Moody's Investors Service and Standard and Poor's (S&P), the international credit rating agencies, for the first time assigned credit ratings to Jordan's debts. Moody's assigned a Ba3 long-term rating to foreign currency debt, while S&P gave it a B+ foreign currency rating and a BBB- for local currency debt. Jordan is the first ESCWA member country, and the second Arab country after Tunisia, to receive ratings by international credit agencies.

2/ See Legal Instruments Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, done at Marrakesh, on 15 April 1994 (General Agreement on Tariffs and Trade (GATT) secretariat publication, Sales No. GATT/1994-7).

UNITED
NATIONS

A E

General Assembly
Economic and Social Council

Distr.
GENERAL

A/51/135
E/1996/51
17 June 1996

ORIGINAL: ENGLISH

GENERAL ASSEMBLY
Fifty-first session
Item 12 of the preliminary list*
REPORT OF THE ECONOMIC AND
SOCIAL COUNCIL

ECONOMIC AND SOCIAL COUNCIL
Substantive session of 1996
Item 8 of the provisional
agenda**

PERMANENT SOVEREIGNTY OVER NATIONAL RESOURCES IN THE OCCUPIED PALESTINIAN AND OTHER ARAB TERRITORIES

Economic and social repercussions of the Israeli settlements on the Palestinian people in the Palestinian territory, including Jerusalem, occupied since 1967, and on the Arab population of the Syrian Golan

Note by the Secretary-General

In its resolution 1995/49 of 28 July 1995, entitled "Economic and social repercussions of the Israeli settlements on the Palestinian people in the Palestinian territory, including Jerusalem, occupied since 1967, and on the Arab population of the occupied Syrian Golan", the Economic and Social Council requested the Secretary-General to submit to the General Assembly at its fifty-first session, through the Council, a report on the implementation of the resolution. The General Assembly, in its resolution 50/129 of 20 December 1995, reiterated that request. The Secretary-General has the honour to submit to the members of the Assembly and the Council the annexed report, covering the period from April 1995 to March 1996, which was prepared by the Economic and Social Commission for Western Asia.

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ANNEX

Report prepared by the Economic and Social Commission for Western Asia

1. The establishment of Israeli settlements in the Palestinian and other Arab territories occupied since 1967 has been the subject of various resolutions of the Security Council and the General Assembly. In its resolution 446 (1979) of 22 March 1979, the Council determined that the Israeli policy and practice of establishing settlements in those territories had no legal validity and constituted a serious obstruction to achieving a comprehensive, just and lasting peace in the Middle East. That position was reaffirmed unanimously in Security Council resolution 465 (1980) of 1 March 1980, in the preamble of which the Council took into account the need to consider measures for the impartial protection of private and public land and property, and water resources, and affirmed the applicability of the Geneva Convention relative to the Protection of Civilian Persons in Time of War, of 12 August 1949, 1/ to the Arab territories occupied by Israel since 1967, including Jerusalem. In 1980, the International Labour Conference also expressed concern regarding the establishment of settlements and called for an end to that policy, as well as the dismantling of existing settlements.

2. At its fiftieth session, in 1995, the General Assembly, having considered the reports of the Special Committee to Investigate Israeli Practices Affecting the Human Rights of the Palestinian People and Other Arabs of the Occupied Territories (A/50/170, A/50/282 and A/50/463), adopted resolution 50/29 A of 6 December 1995, in which, inter alia, it expressed its concern about the continued violation of the human rights of the Palestinian people by Israel and reaffirmed in particular that the Israeli settlements in the occupied territory, including Jerusalem, and the other Arab territories occupied by Israel since 1967 were illegal and an obstacle to a comprehensive settlement.

3. In its resolution 50/129 of 20 December 1995, the General Assembly took note of the note of the Secretary-General on the economic and social consequences of the establishment of settlements by Israel in the territory, including Jerusalem, occupied since 1967, and the Syrian Golan (A/50/262-E/1995/59); recognized the economic and social repercussions of the Israeli settlements on the Palestinian people in the territory occupied by Israel since 1967, including Jerusalem, and on the Arab population of the Syrian Golan; reaffirmed the inalienable right of the Palestinian people and the population of the Syrian Golan to their natural and all other economic resources, and regarded any infringement thereof as being illegal; and requested the Secretary-General to submit to it at its fifty-first session, through the Economic and Social Council, a report on the progress made in the implementation of the resolution. The present report is submitted in response to that resolution.

4. The building of settlements began shortly after the Six Day War in 1967, with the first being established in the Syrian Golan. Since that time, that policy has been developed more or less intensively and has accelerated since the

beginning of 1990. 2/ Financial and tax incentives offered by the Government encourage settlers to make their homes in the occupied territories.

5. The signature on 13 September 1993 by the Government of Israel and the Palestine Liberation Organization of the Declaration of Principles on Interim Self-Government Arrangements (A/48/486-S/26560, annex) was a landmark in the history of Israeli-Palestinian relations. The Declaration states in its article I that the aim of the Israeli-Palestinian negotiations is to establish a Palestinian Interim Self-Government Authority, the elected Council for the Palestinian people in the West Bank and the Gaza Strip, for a transitional period not exceeding five years, leading to a permanent settlement based on Security Council resolutions 242 (1967) and 338 (1973). The issue of settlements, in this Declaration, was deferred to the permanent status negotiations phase, which should start not later than the beginning of the third year of the interim period.

6. On 4 May 1994, the Palestinians and the Israelis concluded an agreement in Cairo for the implementation of the Declaration of Principles (A/49/180-S/1994/727, annex). On that date, the interim period formally began. Soon after the Cairo agreement, the Israeli army completed its withdrawal from the Gaza Strip, but left some forces in the area surrounding 16 Israeli settlements occupied by approximately 4,000 settlers.

7. On 28 September 1995, in Washington, D.C., Israel and the Palestine Liberation Organization (PLO) signed the Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip, referred to hereafter as Oslo II. This accord detailed the mechanisms, and the limitations, of the extension of Palestinian self-rule to significant portions of the West Bank. The main feature of the Agreement was the provision for the division of the West Bank into three areas, each with varying degrees of Israeli and Palestinian responsibility. Area A consists of the seven major Palestinian towns, Jenin, Kalkiliya, Tulkarm, Nablus, Ramallah, Bethlehem and Hebron, in which Palestinians will have complete authority for civilian security. In area B, which comprises all other Palestinian population centres (except for some refugee camps), Israel will retain "overriding security responsibility", while in Area C, which includes all settlements, military bases and areas, and state lands, Israel will retain sole security authority. 3/

8. Oslo II provided the opportunity for the redeployment of the Israeli army, allowing the Palestinian National Authority to assume its civil and security responsibilities according to the schedule provided for in the Agreement. Indeed, the Israeli army began its withdrawal from Jenin on 13 November 1995, followed by Tulkarm on 10 December 1995, Nablus and other villages in the Tulkarm area on 11 December 1995, Kalkiliya on 17 December 1995, Bethlehem on 21 December 1995 and finally Ramallah on 28 December 1995. Withdrawal from Hebron, however, was postponed to the end of March 1996, and the 120,000 Palestinians living there and the surrounding areas were deprived of their freedom because of the presence of 400 settlers for whom the Government of Israel insisted on providing full protection before redeployment (see para. 21 on construction of bypass roads). By the end of March 1996, withdrawal from Hebron had been postponed indefinitely following a unilateral decision by the

Government of Israel in the light of the prevailing security conditions in Israel and the occupied territories.

9. Oslo II also opened the way for free elections in the West Bank and Gaza Strip, allowing the Palestinians to elect 88 members and a President for a Legislative Council entrusted with drawing up a constitution for the work of the Palestinian Authority as well as establishing the necessary legislation. The elections were held on 20 January 1996 under fair conditions, according to international observers, and with the participation of around 1 million voters.

10. The first indications on the thinking of Israeli politicians concerning the future of the occupied territories, including Jewish settlements, came in a statement by the late Israeli Prime Minister Yitzhak Rabin to the Knesset on 5 October 1995 during the discussion of Oslo II. In that statement, he explained his views on the requirements of the final phase: "The security border of the State of Israel will be located in the Jordan Valley, in the broadest meaning of that term." Mr. Rabin also spoke of "changes which will include the addition of Gush Etzion, Efrat, Betar and other communities [settlements] ... in the area east of what was the 'Green Line', prior to the Six-Day War" and of "the establishment of blocs of settlements in Judea and Samaria, like the one in Gush Katif". 4/

11. Less than two weeks later, Prime Minister Rabin again spoke publicly of his vision of a final settlement with the Palestinians, emphasizing the importance of settlement blocs. He stressed that the country's final borders would include - in addition to a united Jerusalem - Maaleh Adumim, Gush Etzion, Efrat, Betar and other settlements east of the Green Line. 5/

12. Successive statements by Israeli officials in the new Government formed by Shimon Peres after the assassination of Yitzhak Rabin have confirmed this direction, which was adopted by the Israeli Labour Party. The Israeli press quoted Minister Yossi Beilin as supporting the idea of gathering settlers in large settlement blocs to be under Israeli authority after the application of the final settlement. For those settlements which would not fall under Israeli sovereignty, he said: 6/

> "We will not suggest to anyone to evacuate or uproot the settlements. It will be up to the settlers themselves to remain in an area outside Israeli sovereignty or to move to another area and to get the help of the Government in this matter."

13. It appears from the official Israeli statements that, in the context of a final settlement, the Government of Israel intends to gather Jewish settlers in settlement compounds with centres in the large settlements of Jerusalem, Bethlehem, Tulkarm, Kalkiliya (settlements close to the Green Line called "five minutes from Kfar Sava") and Nablus. Jewish settlements in the Jordan Valley will remain under Israeli control. During his meeting with heads of Jewish settlements in the Jordan Valley, Prime Minister Shimon Peres assured them that after the final settlement their settlements would remain under Israeli control, avoiding the use of the term "Israeli sovereignty". 7/ He also stated his commitment before the heads of the Gush Etzion settlement to integrate their settlements into Israel after reaching the final settlement. 8/ On the other

hand, the Government will work on the evacuation of about 40 small Jewish settlements and offer the settlers the choice of either moving to other areas (within the Green Line or the settlement blocs) and receiving compensation, or remaining where they are according to certain arrangements to be agreed upon with the Palestinians. 9/ This explains what an Israeli minister meant when he said that there was a difference between keeping settlements and keeping settlers. 10/

14. The progress in the peace process with the Palestinians, in particular the implementation of Oslo II and the redeployment of the Israeli Army and its evacuation of agreed areas, has led to a slight but growing change in the attitude of Jewish settlers concerning the future of the settlements and their own future in the occupied territories. According to a Modi'in Ezrahi survey commissioned by the Peace Now movement and conducted on 17 August 1995 among a representative sample of Jewish settlers, 32 per cent of the settlers said they would be willing to leave their settlements if offered reasonable compensation, while 26 per cent said they would stay in their settlements under any conditions. Fifteen per cent of the settlers said they would surely be willing to leave and another 17 per cent said they thought they would. The poll found that willingness to leave increased in proportion to the distance of the settlement from Jerusalem, in places such as Ariel, Emmanuel, Alfei Menasheh, and Kiryat Arba. Asked what they would do if their settlements were not included in Israel's boundaries in the final agreement with the Palestinians, 26 per cent said they would stay in the settlements under any conditions, 29 per cent said they would stay if security remained in the hands of the Israel Defence Forces (IDF), 25 per cent said they would prefer moving within the Green Line and 8 per cent said they would move to another settlement in the territories. 11/

15. In another survey conducted by the Modi'in Ezrahi in January 1996, 5 per cent of settlers from Ariel, Emmanuel, Alfei Menasheh, Maaleh Ephraim and Kiryat Arba said they were willing to leave their settlements if offered reasonable compensation. Of those, 16.3 per cent said they would surely be willing; 18.5 per cent said they thought they would; and 16.3 per cent said they had not yet decided but they might be willing. 12/

16. In practical terms, Israeli parliament sources have confirmed that 600 Jewish settler families have voluntarily abandoned their dwellings in the settlements of the West Bank and the Gaza Strip since the signing of the Oslo Agreement. According to those sources, a large number of other families wish to leave the settlements but have not received the necessary support from Israeli authorities. 13/ That position was confirmed by the refusal of Prime Minister Shimon Peres, during an interview, to pay any compensation to settlers who wished to leave their settlements, saying that as long as the authorities did not request the settlers to evacuate their settlements, they would not receive any compensation. At the same time, press sources indicated that hundreds of Jewish families living in West Bank settlements had started organizing themselves into a special association aiming at preparing for their departure in exchange for compensation. The Peace Now movement, which stands behind this initiative, held several meetings attended by hundreds of settlers, especially in the Kiryat Arba, Karnei Shomron and Emmanuel settlements. 14/ In the Kiryat Arba settlement, an association was formed under the name of Settlers for

Voluntary Evacuation. Those responsible for this association said they had a list of 200 families interested in evacuating the settlement in exchange for compensation. 15/ The Peace Now movement asked the Government of Israel to provide those settlers with financial assistance, indicating that their number had increased since the assassination of Prime Minister Yitzhak Rabin. 16/ The movement also protested to the Israeli Head of State for refusing to receive representatives of the settlers who were members of the association.

17. One major Israeli newspaper published a lengthy report based on official sources in which it confirmed the existence of secret contacts in European capitals between leaders of some Israeli settlements and Palestinian businessmen for the sale of houses in the settlements and even whole settlements. According to the newspaper, many settlers felt frustrated by the current situation. Leaders of several settlements, such as Elkanah and Itzhar, were negotiating the sale of houses and properties in their own and other settlements after agreeing on appropriate prices. Such contacts were being carried out with the knowledge - but not the intervention - of both the Government of Israel and the Palestinian Authority. 17/ This pragmatic approach on the part of some Jewish settlers represents a new phenomenon, but it is not that of the majority.

18. In mid-June 1995, the settlers began implementing a comprehensive scheme called "Land of Israel First", devised by the Council of Jewish Settlements in Judea and Samaria. The aim of the scheme was to prevent the redeployment of the Israeli Army outside Palestinian towns and villages, as called for in the agreement signed with the Palestinians. The scheme called for seizing government lands neighbouring the settlements, occupying empty houses and opening access roads in the settlements. Thus, on 13 June 1995 dozens of settlers occupied 13 empty houses in the Barkan settlement near Nablus. Three families and 20 bachelors settled on this location, which has been called Maaleh Israel. 18/ On 17 July 1995, settlers moved six mobile homes onto a hill near the Efrat settlement and 12 families occupied empty houses in Kiryat Arba settlement. 19/ At the end of October 1995, the settlers were continuing their campaign to occupy hundreds of houses in the settlements. Referring to declarations made by the Israeli Minister of Construction and Housing in which he estimated empty houses in the settlements at 3,300, Israeli newspapers reported that 12 settler families had entered empty houses in the Maaleh Haifer settlement in the Hebron area without formal authorization and 45 houses in Kiryat Arba continued to be occupied by settlers.

19. Though the Ministry of Housing officially denied having information on this matter, a Ministry of Housing document obtained by Peace Now shows that there have been 612 instances of settlers squatting in the empty apartments. That figure includes 44 in the settlement of Meitzad in Gush Etzion, 31 in Avnei Khefetz, 34 in Barkan, 31 in Yakir, 38 in Alei Zahav and 83 in Eli. That number, however, does not include dozens of settlers who squatted in flats in Ariel and to whom the Government agreed to sell the homes. 20/

20. The settlers intensified their campaign in what the Israeli and Arab press called the "war of the hills". In early August 1995, the settlers established 15 settlement locations on West Bank hills near Sussiah, Alon More, Alfe Menasheh, Neve Samuel, Karnei Tsur, Neve Daniel, Givat Zeev, Ofra, Dolev and other settlements. With the support of extreme right-wing parties, the settlers

were able to stage a demonstration aimed at closing all major roads, streets and crossroads in the West Bank and inside Israel. The Israeli press and television said that the settlers' protests involved more than 40 major roads. 21/

21. During the period under review, the seizure of Arab lands and their exploitation took on many forms and methods, including for the construction of bypass roads and security fences between the occupied territories and Israel. The Government of Israel had in fact committed itself to the construction of bypass roads and to providing everything necessary for the security of Jewish settlers during the transition period. During the discussion of the Oslo II Agreement in the Knesset on 5 October 1995, the late Prime Minister Yitzhak Rabin stated: 22/

> "Activity for providing security measures for the Israeli communities - fences, peripheral roads, lighting, gates - will continue on a wide scale. Bypass roads will be built, whose purpose will be to enable Israeli residents to move about without having to pass through Palestinian population centres in places which will be transferred to the responsibility of the Palestinian Authority. In any case, the IDF will not carry out a redeployment from the first seven cities before the bypass roads are completed. In all, investment in the bypass roads will be about 500 million new shekels [$166 million]."

In that regard, Mr. Rabin explained that the postponement of redeployment in Hebron to March 1996 was caused by the inability to complete the bypass roads in the area before that date.

22. In May 1995, Israeli press sources indicated that the Israeli Army was to begin construction of 11 bypass roads at a cost of NIS 300 million. 23/ The total length of those roads was estimated at 130 kilometres.

23. The first bypass around Jericho was inaugurated on 1 August 1995 in the presence of the late Prime Minister Yitzhak Rabin, 24/ and in December the Ramallah bypass was inaugurated in the presence of the Israeli Minister of Construction and Housing and the military commander of the central zone as well as representatives of the settlers.

24. The construction of settlement bypass roads and other streets in the course of 1995 required the confiscation of thousands of dunums of Arab land in various parts of the West Bank. (A dunum is a unit of land area equal to 1,000 square metres.) In the areas of Nablus and its villages, Jenin, Tulkarm, Kalkiliya, Ramallah, Bethlehem, Hebron and Jerusalem, the Israeli civil authorities issued tens of orders for the confiscation of Palestinian lands. Military chiefs also issued military orders to seize and/or close hundreds of dunums of land. Defence Committee sources indicate that the amount of land confiscated for the construction of settlement roads totalled 18,000 dunums. 25/ These expropriations led to thousands of Palestinian families being deprived of their only livelihood, since most of the lands were planted with crops and olive and fruit trees. In some areas, the confiscations resulted in damage to archaeological or religious sites and in other locations threatened to destroy houses where Palestinians lived.

25. Affected Palestinians expressed their protests, formed committees to defend their threatened lands and presented their objections to the relevant Israeli authorities and courts. In several locations, inhabitants maintained a presence in their homes for a number of days, attempted to prevent bulldozers from working on their lands and said prayers on them. Israeli left-wing and environmental protection groups took part in the protests. For the first time, a small group of Jewish settlers from areas around Halhoul participated in a demonstration to protest the confiscation of 2,700 dunums of agricultural land for the construction of a bypass road in the Hebron area. 26/ Protests also emanated from the Palestinian Authority, with an official saying that bypass roads and land confiscations for their construction had gone beyond their stated objective. The aim now was to confiscate more land at any price, destroy cultivations, dissolve the geographical uniformity of Palestinian cities, towns and villages, halt urban and demographic expansion and establish a new reality in the occupied territories where Israeli authorities would be in permanent control. Moreover, the way such roads were being constructed, the Palestinians feared, indicated that they would remain permanently, maintaining the de facto situation and the presence of settlements and settlers in the West Bank. 27/

26. As for the so-called demarcation wall or security fence, the Israeli society and politicians have discussed extensively the feasibility and possibility of implementing the full separation between the occupied territories and Israel. However, after work began to implement the separation plan prepared by the Israeli Army and approved by the Prime Minister in March 1995 (which involved the establishment of a 30-kilometre security zone east of the Green Line with observation posts, an early warning system, advanced technological techniques and trained dogs at a cost of half a billion United States dollars), the Government reversed its position and froze the implementation of the plan. However, political developments, especially the assumption by the Palestinian Authority of its administrative and security responsibilities in both areas A and B (see para. 7), pressure from supporters of the separation plan in Israeli security circles and the pretext of defending settlements on the demarcation line led the Security Committee to draw up a new plan for a security wall. According to declarations made by the Israeli Minister of Police, there were 83 Jewish settlements on the demarcation line that would be protected through cooperation between the Israeli Army and the police and the construction, north of the West Bank, of a 12-kilometre security wall separating the West Bank from Israel and equipped with special electronic devices and 18 central checkpoints. 28/ Despite instructions from the legal adviser of the Government of Israel not to confiscate Palestinian land and to build the wall within Israel, except when it was not possible to do so, Palestinians said that the Israeli authorities had informed them of the confiscation of unspecified parts of their lands in the Tulkarm and Kalkiliya areas for the purpose of constructing the wall. 29/

27. At the end of 1995, the Government of Israel decided to freeze the construction of the security wall. 30/ However, the series of suicide bombings witnessed by Israel in February and March 1996 prompted the Government to announce a comprehensive plan to counter them. Israeli Prime Minister Peres, who had always opposed proposals to separate the two peoples, agreed to the proposals of the Security Committee to build the security wall and deploy heavy military and police forces along the Green Line, surrounding an area

360 kilometres long and 2 kilometres wide. There would be 18 checkpoints to control the traffic of goods and persons over a period of about one year. In the area of Tulkarm and Kalkiliya, a 29-kilometre-long electronic fence would be erected and Palestinians would be prevented from entering the area, except for landowners, to whom Israel would give special entry permits. 31/

28. Sources from the Centre for Land Research in East Jerusalem estimated the total area of expropriated Palestinian land in 1995 at 18,180 dunums. Of those, 3,500 dunums were seized as state land, 8,900 for settlement purposes, 1,100 for military purposes and 4,680 for public projects. 29/ Furthermore, Palestinian sources, namely, the Land and Water Agency, indicated that between the signing of the Declaration of Principles in September 1993 and the end of 1995, Israeli authorities had confiscated 230,000 dunums under various pretexts relating to the establishment of natural reserves, the opening of bypass roads, the expansion of settlements or, again, the security wall. 32/

29. Most of the official and non-official Israeli settlement activities of 1995 and the beginning of 1996 were concentrated in the Jerusalem area. Israel has implemented a number of measures targeting the Arab presence in the City, including harassment and closure of Palestinian institutions in Jerusalem; withdrawal of Israeli identification cards from Palestinians registered in Jerusalem and living outside the City limits; and direct and indirect interference in the elections for the Palestinian Legislative Council in Jerusalem by spreading rumours about depriving voters of their civil and social rights, harassment of candidates and deploying a heavy security presence on election day and obstructing voters' access to the polls. By implementing these and other measures relating to the confiscation of Palestinian land in the Jerusalem area and the intensification of settlement activity there, Israel has attempted to influence the results of the "final status" negotiations called for in the Declaration of Principles and due to start in May 1996, with the issue of Jerusalem one of the crucial issues to be addressed. 33/

30. In a publicly broadcast ceremony in honour of the twenty-eighth anniversary of "Jerusalem's reunification", Prime Minister Yitzhak Rabin declared: 34/

> "All Governments of Israel, including the present Government, have been fully confident that what was determined in 1967, what was legislated in 1988 - transforming Jerusalem into a unified City under Israeli sovereignty, the capital of Israel, the heart of the Jewish people - these are facts that will endure for eternity ... The cabinet will act to strengthen the status of united Jerusalem as the exclusive capital of Israel, and will fight any attempt to impair this status."

31. On 14 March 1995, the Israeli authorities announced the expropriation of 2,040 dunums of land in the villages of Sheevat, Anata and Issawiya, near Jerusalem, in accordance with the electricity rights law, for the purpose of installing a 161-kilowatt power line to supply electricity to the area between Ramon settlement and Al-Khan Al-Ahmar region. 33/ In April the Israeli Minister of Finance issued a decree involving the confiscation of 535 dunums of Arab land in the towns of Beit Hanina and Beit Safafa. This was seen by observers as the most important expropriation decree in five years. Officials of the Jerusalem municipality said that this expropriation was a first step towards

expropriations of a larger scale. Deputy Mayor Uri Lupoliansky said that the municipality had also requested that expropriations be carried out for Jewish housing projects near Pisgat Zeev and Gilo. Officials close to the planning department confirmed that an additional 4,400 dunums had been earmarked, including about 800 dunums near Pisgat Zeev, 2,000 near Walleja village, 800 near the Mar Elias Monastery and another 800 near Givat Hamatos. 35/

32. The decision provoked indignation and rage among Palestinians and in Arab, Islamic and international circles. The non-aligned countries in the United Nations submitted a draft resolution to the Security Council rejecting the expropriation of land in Jerusalem by the Israeli authorities and requesting the Government of Israel to cancel expropriation decrees and stop expropriations in the future. However, a veto by the United States of America prevented the adoption of the resolution. In Israel itself, the expropriation decision faced a great deal of criticism from members of the Government, left-wing parties and anti-settlement movements.

33. Jerusalem City Councilman Ornan Yekutieli (Meretz) asked the Israeli High Court of Justice to stop the planned expropriation. In his petition he argued that the expropriations of Arab-owned land violated the Basic Law: Human Dignity and Freedom because the Government was not according Jerusalem's Arab population basic equality. The petition read: 36/

> "Since 1967, all new neighbourhoods built in Jerusalem have been for Jews, though most of the land confiscated for this purpose was taken from Arabs. In some 32 per cent of Arab households in the City, people live three or more to a room, compared with only 2.4 per cent of the Jewish population. In addition, though Arabs constitute 28 per cent of Jerusalem's population, only 12 per cent of construction since 1967 has been earmarked for them, and only 5 per cent of construction since 1990."

Absorption Minister Yair Tzaban also confirmed in a statement that: 35/

> "The expropriation of land belonging to Arab residents for the purpose of building or expanding Jewish neighbourhoods is done with complete disregard for the housing needs of Arab residents of Jerusalem."

34. The Government later froze the implementation of the decision in response to a proposed no-confidence motion presented to the Knesset by two Israeli parties. 37/

35. A day after the Government shelved its expropriation plans, the Jerusalem district planning committee of the Ministry of Interior approved the construction of the Har Homa settlement in south-eastern Jerusalem. The project, which would eventually include around 6,500 housing units, was to be built on some 1,850 dunums of land expropriated four years before. 38/

36. On the other hand, Khalil Al-Tafkaji, a Palestinian researcher, revealed that what remained of the Jerusalem area occupied since 1967 for potential use by Arab inhabitants no longer exceeded 4 per cent. In a study on settlements in Jerusalem entitled "The Judaization of Jerusalem: facts and numbers", 39/ he indicated that since June-July 1967, the Israeli authorities had confiscated

33 per cent of the City's area directly for settlement purposes. Another 40 per cent had come under their control as a result of new maps having been drawn wherein the size of Arab neighbourhoods and villages was reduced and only a limited area within them was designated for building, thus bringing the total area of Jerusalem under Israeli control to 73 per cent, with the addition of 6 per cent already designed for the construction of roads. The remaining 21 per cent was in Arab hands, of which 10 per cent was inhabited and 7 per cent was unplanned, rendering it vulnerable to expropriation or sale because of the high taxes imposed by the Israeli authorities. Arabs were thus left with a mere 4 per cent of the area of Jerusalem for any future utilization by the Palestinians, which was currently the subject of an unbalanced fight in which the Israeli side had the upper hand.

37. In a study on expropriation of Arab land in Jerusalem, Merom Benvenisti, a researcher on settlements and a former member of the Municipal Council of Jerusalem, refuted claims and declarations by Israeli officials that expropriations affected both Arabs and Jews. He said that there were no similarities between confiscated Jewish and Arab lands. Whereas Jews were ready to accept compensation or replacement land taken from the Arabs, an Arab would never accept land confiscated from another Arab. Mr. Benvenisti also described the physical maps of Arab neighbourhoods prepared by the Israeli authorities as misleading tricks. Projects in the Jewish sector were carried out by official, public and private entities with large financial advantages and marketing personnel. Jews approved for themselves thousands of building permits in a single session of the committees for quick planning, while Arabs lingered for years with planning committees that worked according to political instructions. 40/

38. As for strengthening Jewish settlements in Jerusalem, Israeli press sources indicated that 11,000 housing units were being constructed as at the beginning of 1996, and thousands more were being planned. According to those sources, the Israeli Army had recently completed the evacuation of a camp in the Neve Yaacov area north of Jerusalem in preparation for the construction of 1,100 settlement housing units linking the settlements of Pisgat Zeev and Neve Yaacov to Street Nos. 13 and 1. These houses were to be built on land from the Palestinian town of Beit Hanina that had been confiscated in the early 1980s. Quoting information that was available to the Planning Department in the Municipality of Jerusalem, press sources indicated that plans had been drawn up for the construction of 33,458 housing units for Jews against 15,120 for Arabs in order to increase the Jewish population of Jerusalem by 123,000. Published figures include planned construction of Jewish housing units in Pisgat Zeev (4,000 units), Har Homa (7,500 units), Sheevat Hill (2,200 units), Gilo (7,000 units) and Jevat Hamtus (1,800 units). 41/ Israeli sources further indicated that the interministerial committee on settlements would at its next meeting consider plans to construct 3,000 new housing units in Maaleh Adumim, 500 in Gush Etzion and more than 1,000 each in the Betar and Kiryat Sefer settlements. 42/

39. A government committee had already approved the project, financed by settlement associations, for the construction of 132 housing units for religious Jews on an area of 15 dunums in the Arab-populated Ras Al-Amud area, 2 kilometres east of Jerusalem. The project was stopped by the Israeli Minister of the Interior, who refused to approve it owing to the criticism from his

colleagues in the Government and from members of the Municipal Council of Jerusalem. 43/ However, the intervention of the Prime Minister led to the approval of the project. 44/

40. Regarding settlement roads in the Jerusalem area, Palestinian sources said that the Israeli Supreme Court had, in March 1996, approved decisions by Israeli military authorities to construct Streets 4 and 45 in Jerusalem while it was still looking into an appeal against the construction of Street 1. According to those sources, Street 4 crossed into the lands of Beit Hanina, Rafat and Jadira from the south, linking the Givat Zeev settlement with the Ramut settlement established on lands from Beit Aksa and Beit Hanina. Street 45 linked the Givat Zeev settlement with the Rift Valley area, whereas Street 1 crossed into the village of Sheevat in order to link the Jerusalem settlements with the Neve Yaacov settlement. Its construction would lead to the destruction of 17 houses in Sheevat and Beit Hanina and the confiscation of 380 dunums ordered by the Israeli authorities since September 1995. 45/

41. In the Jewish settlements of the West Bank, official settlement activity was in harmony with the vision of Israeli politicians for the future of those settlements after the transition phase. In that context, activities aimed at strengthening settlements were concentrated during 1995 in the Jewish settlements near Jerusalem the Gush Etzion settlements, and settlements close to the Green Line.

42. According to a report published by Peace Now, 1,400 new housing units had been started since the beginning of 1995 in Jewish settlements over the Green Line, most of them in the Greater Jerusalem area. The group said that this was the largest number of building starts in the territories in three years. Altogether, 6,000 housing units were under construction to provide housing for 25,000 people. The report was strongly attacked by the Israeli Minister of Housing, who called it grossly irresponsible and accused the group of creating a possible international backlash against housing in parts of Jerusalem such as Pisgat Zeev and nearby towns (settlements) such as Maaleh Adumim. 46/

43. Press sources also indicated that during 1995 government building activities in West Bank settlements had reached 1,800 housing units, 1,528 of which were in settlements close to Jerusalem and 272 in the rest of the West Bank settlements. 47/

44. In the settlements near Jerusalem during the first four months of 1995 construction was begun on 1,126 units. During the second quarter, 224 units were begun. Most of this construction was occurring in Beitar (718) and Maaleh Adumim (616) as part of the 4,100 units approved by the Government in January. The Ministry of Housing intended to start building 2,285 units in the Jerusalem region during 1995. 48/

45. In the settlements of Gush Etzion, the Chairman of the Regional Council confirmed that work had started on a project to build a large industrial area. He said that everything was proceeding in a legal manner with the approval of the authorities concerned. 49/ Israeli parliamentary sources revealed that the Government of Israel was planning to build a new settlement in Gush Etzion called Shvut Rahil-B. A number of mobile homes had already been installed at

the site and the Ministry of Housing was studying the developments there. 50/ The Minister of Finance had said that the settlements of Gush Etzion represented large reserves of land and that he would recommend intensifying and expanding the construction of settlements there so as to have a de facto situation imposed during the final stage of the peace negotiations. He reportedly declared that it was no secret that the Government considered those neighbourhoods (i.e. the neighbourhoods close to Jerusalem) and others, such as Maaleh Adumim and Gush Etzion, an integral part of the future map of Israel. 51/

46. As for the settlements close to the Green Line, Israeli press sources reported the Minister of Housing as saying his Ministry had prepared the blueprints for a new neighbourhood for religious Jews within the Green Line called "Mattiyahu", near the settlement of Kiryat Sefer (west of the city of Ramallah), and for the Hashmonaim neighbourhood, also within the Green Line, so that the three sites would become one settlement with 12,000 housing units. The sources reported that the Government of Israel had made several proposals concerning the religious Jews in an attempt to appease the religious parties by building housing units especially for the religious Jews in fulfilment of promises made to those parties in return for their support for the Government in the Israeli Knesset and for their agreeing to refrain from voting in a no-confidence vote proposed by the Yemenite opposition. 52/

47. At the beginning of 1996, the Israeli Prime Minister ratified the establishment of a new settlement close to the Green Line in the region of Ramallah to house the officers and soldiers of the Israeli regular forces and their families. The new settlement will have 680 housing units and will be part of the new Israeli town of Mawdiein once it is completed. 53/ In the northern part of the West Bank, the Government of Israel provided land and many other facilities to official and semi-official authorities for the construction of five factories in the industrial area of the Shaked-Hinnanit-Reihan settlement bloc, west of Jenin, at a cost of US$ 8 million. The total area of construction will be 18,000 square feet. Reports said that there were efforts under way to annex the industrial area of 50 dunums to an existing park belonging to the Israeli village of Um al-Fahum, 1.5 kilometres distant. 54/

48. The Ministerial Committee for Planning and Construction, which is responsible for studying and approving plans and projects for settlements in the occupied territories, has not convened a meeting since January 1995. It is expected that once the Committee meets it will study and approve various settlement projects in the West Bank, including the establishment of new settlements and adding thousands of new housing units to already established settlements. 55/

49. As for the Jewish settlements in the occupied Golan Heights, official and local efforts to strengthen those settlements by building new neighbourhoods and bringing more settlers to live in them have continued. Sources said that there was a mass influx of newcomers to Katzrin, which has experienced a population boom in the past year. Golan regional council officials revealed in August 1995 that 120 families had been absorbed into existing settlements in the preceding two months alone. The council's chairman said they were optimistic that the number of new families coming to live in the region, apart from Katzrin, would top the 1,000 mark within a year. He added that the council was continuing to

develop and expand the existing infrastructure and increase work places, in particular in industry, tourism and agriculture, to meet the newcomers' needs. 56/

50. In addition to land seizure, the building of settlements and the expansion of those settlements, water utilization in the occupied territories remains one of the problems that adversely affect the lives of Palestinians and their economic and social conditions. Israel and the Palestinian Authority reached an initial agreement in July 1995 on the issue of water in the occupied territories. Water rights and methods of utilization in the West Bank will be determined in the final-stage negotiations and a tripartite Israeli-Palestinian-American committee will be formed to discuss water-related issues such as utilization and distribution, and the supervision of the utilization and development of new sources of water. The agreement on water issues was one of the most difficult subjects that the two parties had to discuss, even threatening the negotiations of the transitional stage.

51. According to Israeli press sources, the western, northern and north-eastern aquifers that flow under the West Bank hills produce 600 million cubic metres per year, from which Israel draws 490 million cubic metres and the Palestinians 110 million cubic metres. The Palestinians' quota of water has been fixed since 1967, despite the growing population, while Israel's needs have grown even faster. These aquifers supply 30 per cent of Israel's water consumption. 57/ Palestinians argue that this division of water is patently unfair, especially since only 20 per cent of the water flows under the Israeli side of the Green Line.

52. Following a meeting with the Chairman of the PLO, Yasser Arafat, and Egyptian President Hosni Mubarak in July 1995, Shimon Peres (then Minister for Foreign Affairs) insisted that any new water arrangement would not come at Israel's expense. He said that there would be no division of what already existed, but an effort to create new water sources. 58/

53. In August 1995, Israeli television broadcast a report on the severe shortage of water in the West Bank town of Hebron. The report showed dried-up fields that were supposed to sustain the Arab residents. In contrast, the report also showed scenes from the settlement of Kiryat Arba with green and flowering gardens owned by the settlers, thus revealing the extent of inequality in water distribution. 59/

54. A Palestinian scientist specializing in water issues has said that Israel receives an average of 94 per cent of the renewable water of the western basin of the West Bank. He also said that the Palestinians in the West Bank were not allowed to use the water from winter floods and were prevented from building dams. The scientist complained that Jewish settlers dumped piles of solid waste and soil at the entrance of the villages close to groundwater wells, a practice that polluted the water and rendered it unsuitable for drinking. 60/

Notes

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4/ Ibid., p. 3.

5/ The Jerusalem Post, 19 October 1995.

6/ Ha'aretz, 15 February 1996.

7/ Ibid., 26 December 1995.

8/ Ibid., 8 December 1995.

9/ Yedioth Aharonoth, 26 November 1995.

10/ Al-Ittihad, 14 December 1995.

11/ The Jerusalem Post, 31 August 1995.

12/ Al-Quds, 25 January 1996.

13/ Al-Nahar, 8 December 1995.

14/ Ha'aretz, 25 January 1996.

15/ Al-Nahar, 11 January 1996.

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32/ Ibid., 28 December 1995.

33/ Al-Quds, 4 April 1995.

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47/ Al-Quds, 7 March 1996.

48/ Foundation for Middle East Peace, op. cit. (September 1995), p. 5.

49/ Ha'aretz, 8 December 1995.

50/ Al-Ittihad, 15 February 1996.

51/ Ibid., 14 December 1995.

52/ Ha'aretz, 26 January 1996.

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54/ Foundation for Middle East Peace, op. cit. (September 1995), p. 3.

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57/ Ibid., 19 July 1995.

58/ Ibid., 20 July 1995.

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60/ Ar Rai, 30 January 1996.